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DISSERTATION

Beyond Rivalry and Camaraderie

Explaining Varying Asian Responses
to China

John F. Fei

This document was submitted as a dissertation in February 2011 in partial fulfillment of the requirements of the doctoral degree in public policy analysis at the Pardee RAND Graduate School. The faculty committee that supervised and approved the dissertation consisted of Andrew Hoehn (Chair), Eric Heginbotham, and Dalia Dassa Kaye.



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ABSTRACT

Asian states often make tradeoffs between economic and military security goals, and shifts in states' preferences for economic advantage versus military strength explain variation and diversity in their responses to China. Countries that prioritize technological advantage and economic strength respond differently to China than those that do not because they accept a greater degree of security risk to realize economic gains from interactions with China.

This dissertation assesses the security and economic policy responses of a representative sample of Asian states to China between 1992 and 2008. The responses of Japan, Korea and Thailand have defied predictions of the dominant international relations paradigm—realism—that states would either balance against or bandwagon with a rising China. However, the three states have not discarded consideration of external security threats. Differences in how Japan, Korea and Thailand have responded to China over time are explained not only by changes in China's military threat, but perceptions of the threat as weighed against changing economic priorities. Domestic strategic evolution—change in political structure and grand strategy—has had an important impact on the manner in which the three nations have responded to China.

The findings of this dissertation bear on both the study and practice of international security policy. Domestic politics and state preferences are important factors to consider when explaining the responses of Asian states to China, responses which would not have been implied by the consideration of external threats alone. Understanding the determinants of Asian nations' different and evolving preferences for the ratio of economic versus military strength will aid U.S. officials in formulating policies that affirm these states' strategic interests.

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CHAPTER 1

INTRODUCTION, THEORY, LITERATURE REVIEW AND RESEARCH DESIGN

THE PUZZLE

The rise of China is one of the most consequential events in modern history. Since the end of the Cold War, some communities across the Asia Pacific region have expressed caution over China's territorial ambitions and military buildup. The United States has certainly viewed China's military modernization with suspicion, while other nations have expressed varying degrees of concern over different periods of time.¹ Yet states which are alarmed by China's military developments are simultaneously embracing its economic growth. Still other nations are accommodating China and downplaying its security buildup.

The prevailing debate in academic and policy circles over how nations would respond to the rise of China has centered around the dominant international relations theory's prediction of how nations respond to the rise of great powers—by forming alliances to balance against the rising power.² Scholars who embrace the realist paradigm have often predicted that the rise of great powers would breed instability, and that China's rise would lead to a reprise of pre-World War I European great-power politics.³ Dissenters of this view argue that because Asia is *sui generis*, a configuration resembling that of Asia prior to European colonization will re-emerge, where Asian states will all accommodate China.⁴ Still others suggest that China's economic rise will lead to harmonious

¹ Former US Secretary of Defense, Donald Rumsfeld, highlighted China's military threat during the 2005 Shangri-La Dialogue in Singapore, stating on June 4: "China also is improving its ability to project power, and developing advanced systems of military technology. Since no nation threatens China, one must wonder: Why this growing investment? Why these continuing large and expanding arms purchases? Why these continuing robust deployments?" See International Institute for Strategic Studies, 2005.

² This perspective comes from Waltz, 1979.

³ Friedberg, 1993/4 is the most cited example of this view.

⁴ Kang, 2003 encapsulates this view.

relations. While each of these perspectives has threads of truth, none by itself is comprehensive enough to explain what is occurring in Asia. Asian states are not balancing against, nor are they bandwagoning with, China. It is true that China's remarkable economic transformation from a socialist to a mixed-model of capitalism has created tremendous opportunities for Asian states to engage China in mutually beneficial relations. Yet economic engagement has not prevented some Asian states to hedge against China's military rise.

What explains the diversity of responses, which does not conform to the dominant international relations theory's predictions? The diversity of policies, and changing policies over time, beckons for more rigorous analysis.

RESEARCH QUESTIONS AND MOTIVATION

This dissertation will address Asian regional dynamics by assessing the responses of three U.S. allies—Japan, Korea and Thailand—to China's rise, and determining the key contributory factors that influence the responses. It will focus on answering the following research questions:

- Why have Japan, the Republic of Korea and Thailand adopted different political, security and economic stances vis-à-vis China?
- How, and why, have the stances ("responses") within each of the three countries changed over time?

For instance, are Asian states with more powerful militaries prone to foreign policies that are less solicitous of China's interests? Do states that trade more with Beijing become less independent in their foreign policy formulations? Are the configurations of domestic political interest groups and constituencies important in shaping policy stances towards China? And if so, what determines the "structure" or "configuration" of the domestic political landscape? Do certain norms bind domestic institutions in particular configurations, and are these norms directly determinative of the state's response to China, or do they only shape the response via the domestic political configuration?

Answers to these questions will inform the larger policy question of whether China's ascendance is to be feared or embraced. For US policymakers, part of the answer to this question depends on how China's rise impacts its Asian neighbors—many of which are US security partners. Recent history shows the need for a sophisticated analysis of why Asian nations are responding differently to China. States which had shunned political and economic contact with China during the Cold War are now finding plenty to be gained from enhanced diplomatic and commercial cooperation with Beijing. Countries that once readily aligned themselves with US political and security goals in Asia are now more circumspect in their foreign policies; today, many would rather avoid having to choose between Washington and Beijing. These developments raise the question of whether China's inroads are coming at the expense of US influence in the region, especially with regard to Washington's security partners—Japan, Korea and Thailand.

For US policymakers who manage America's alliance relations in Asia, and who oversee decision making vis-à-vis the region, understanding the rationales behind why three crucial allies are responding differently to China will be of immense value to crafting policies which affirm these states' strategic interests and domestic needs. At a time when US diplomatic resources are thin and global trust in US policies are colored by the complexities of the ongoing conflict in the Middle East, it is more crucial than ever to understand the various contributory factors shaping the foreign policy choices of Asian states vis-à-vis China. Deeper knowledge will not only help policymakers identify unintended consequences of existing policies towards Asian allies, but will also be of value in shaping future policies which will improve the US' ability to engage and project its influence in the region.

LITERATURE REVIEW

This thesis bridges the gap between the broader world of international relations theory and the focused scholarship on Asian regional dynamics. While the dissertation is not primarily geared towards advancing the field of theory, it does contribute to advancing the application of existing theories as a means of explaining empirical phenomena. There has been a proliferation of literature tracking the evolution of China's geopolitical rise and its impact on the region. Studies in this realm have ranged from more descriptive accounts to ones evaluating regional dynamics against

international relations theory. While there have been efforts to integrate both theoretical and regional/descriptive approaches, existing works have primarily sought to explain Asia as an evolving region, or have consisted mostly of edited volumes.⁵

In the section below, I review the literature most pertinent to my dissertation, and comment on how my research assessing Asian responses to China fits within the existing published body of knowledge.

Regional Studies Literature

The literature on Asian regional dynamics is already vast, and continues to grow given the expanding importance of China and Asia in security and economic affairs. As the following survey of the more relevant published body of knowledge reveals, most monographs have tended towards discussion of either Asia as a region, or assessment of individual Asian state's attitudes towards multilateralism. Less has been done to systematically assess variations among the policies of Asian states towards China.

Michael Green's and Bates Gill's edited volume, *Asia's New Multilateralism*, offers a comprehensive and incisive analysis of Asian states' attitudes and strategies towards regionalism.⁶ *Trade, Interdependence, and Security*, edited by Ashley Tellis and Michael Wills, aims primarily to elucidate the importance of trade in the grand strategies of various Asian states. While the introduction provides an excellent theoretical overview of liberal theories which link interdependence and security, the bulk of the volume consists of country studies that describe economic and political relations among various Asian countries.⁷ Jing-Dong Yuan provides summary-type descriptions of relations between China and Southeast Asian states, analyzing the dual strategies of engagement and hedging practiced by these states.⁸ Other works include those edited by David Shambaugh and Satu Limaye.⁹ None, however, attempt to explain variation among the foreign policies of Asian states vis-à-vis China.

⁵ The notable exception is Kang, 2007a.

⁶ Green and Gill, 2009.

⁷ Tellis and Wills, 2006

⁸ Yuan, 2006.

⁹ Limaye, 2003, Limaye, 2004a, Shambaugh, 2005.

The most current, rigorous and comprehensive study on how Asian states are responding to China's rise is *Pacific Currents*, by Evan Medeiros. The research is well conducted, systematically observing the responses of various constituencies in six Asian states towards China. Its main weakness lies in not clearly defining which independent variables shape the dependent variable of an Asian state's response to China. By not cogently specifying what constitutes a response to China, the study conflates endogenous and exogenous variables, diminishing the ability to explain the nature and character of responses. While the study does describe similarities and differences in the responses of Asian states to China, it does not attempt to mesh this phenomenon with any international relations theories.

Literature Integrating Theory and Regional Studies

Evelyn Goh's important work on Southeast Asia-U.S.-China dynamics makes a significant contribution to advancing our understanding of Southeast Asian responses to China.¹⁰ Characterizing the foreign policies of Southeast Asian states as comprising deep engagement with and soft balancing against China, she argues that the traditional balancing-bandwagoning dichotomy does not adequately model the responses of Southeast Asian states vis-à-vis China. While Goh briefly explains the variation in responses of these states to China, she does not systematically test international relations theories against these responses.¹¹ The scope of the study does not include testing theories against the responses, or looking at changing responses over time.

Others who have written about the need to go beyond the traditional balancing and bandwagoning dichotomy point to the fact that predictions that Asia would descend into disruptive rivalry and balancing in the post Cold War era of multi-polarity did not materialize as basis for this argument.¹² While David Kang notes that no Asian state has balanced against China, and that the region's

¹⁰ Goh, 2008.

¹¹ In another paper, Goh elaborates further on the motivation behind the strategies of some of these Southeast Asian states. However, the purpose of the project is to investigate Southeast Asian regional security strategies and concepts of regional order, not to explain variation in responses to China using international relations theories. See Goh, 2005b.

¹² Friedberg, 1993/4, advances the argument that Asia is "ripe for rivalry," predicting balancing in Asia.

traditional hierarchical orientation will make bandwagoning and accommodation more likely in the future,¹³ Amitav Acharya dismisses this aspect of Kang's argument, but does agree that no state has balanced against China.¹⁴ In describing the empirical responses of several Southeast Asian states to China, Denny Roy also acknowledges the lack of balancing and bandwagoning, noting that these states practice engagement and hedging instead.¹⁵ All of these authors suggest that realist paradigms are not sufficient, or appropriate, for explaining Asian regional dynamics. This is an important contribution. Yet, except for a more recent study by Kang, none of these authors go into more detail by attempting to explain variations among the responses of Asian states to China. Furthermore, these papers are not designed to engage in extensive hypothesis testing and analysis of Asian regional dynamics against international relations theories.

Several works integrate regional scholarship on Asia and international relations theory. John Ikenberry and Michael Mastanduno discuss realist, liberal and constructivist paradigms in the introduction to their edited volume, with the aim of shedding light on the question of whether traditional international relations theories, based on Western historical experience, are relevant in the Asia Pacific region.¹⁶ While subsequent chapters engage these paradigms with contemporary relations between and among key Asian states, there is no attempt to systematically assess the policies of Asian states towards China. Instead, the book focuses on U.S.-China-Japan relations with the view that relations among the three powers will largely determine stability in the region. Edited by J.J. Suh, Peter Katzenstein and Allen Carlson, *Rethinking Asian Security* makes the case for analytical eclecticism, with chapters on interstate Asian relations and Asian security that engage in inter-paradigm debates.¹⁷ But again, no attempt is made to systematically assess the policies of Asian states towards China. Scott Snyder's *China's Rise and the Two Koreas* discusses theory alongside South and North Korea's policies towards China, but while it offers a path-breaking analysis of policy change over time, it limits the study to the two Koreas.¹⁸

¹³ Kang, 2003.

¹⁴ Acharya, 2003/4.

¹⁵ Roy, 2005.

¹⁶ Ikenberry and Mastanduno, 2003.

¹⁷ Suh, Katzenstein and Carlson, 2004.

¹⁸ Snyder, 2009.

There are only two works which integrate international relations theory with regional expertise, and explain variation among Asian states' responses to China: *Engaging China: The Management of An Emerging Power*, edited by Alastair Iain Johnston and Robert Ross,¹⁹ and *China Rising*, by David Kang.²⁰ Johnston and Ross consider the contemporary responses of seven states—Korea, Taiwan, Indonesia, Singapore, Malaysia, Japan and the US—plus multilateral bodies, to China. The volume discusses the response of Asian states to China against the backdrop of history and international relations theory concerning how states interact with rising powers, and probes the variation in responses by invoking various international relations theories—without making any definitive arguments explaining the heterogeneous responses. However, Johnston and Ross do not systematically test engagement policies of Asian states against international relations theories. The explanation of the variation in responses consists of only a very small portion of the volume, with the main thrust of the book towards examining the engagement of China by Asian states.²¹ Another weakness of their study is that it does not examine the changes in responses of Asian states to China over time—neglecting the dynamic nature of domestic politics in shaping regional security relations. Furthermore, the study is over a decade old.

In their study, the specification of the dependent variable—a state's response to China—is also problematic.²² Johnston and Ross depict the grand strategies of states along a two-dimensional scale, with an engagement-containment horizontal axis, and a minimal-maximal vertical axis.²³ This specification is problematic. The degree to which a state pursues an engagement or containment strategy can be viewed as an independent variable determining the intensity of engagement. In this sense, they have included elements of the independent variable in the dependent variable.

My dissertation places most closely to David Kang's *China Rising*, but rather than examining an historical and cultural explanation behind why Asian states are accommodating China, I aim to craft hypotheses which probe the *differences* in Asian policies towards China, both within each country

¹⁹ Johnston and Ross, 1999.

²⁰ Kang, 2007a.

²¹ The authors bound the definition of engagement specifically for this work as the “use of non-coercive methods to ameliorate the non-status quo elements of a rising major power's behavior,” with the goal of ensuring that the growing power is used peacefully (Johnston and Ross, 1999, p. xiv).

²² Further discussion of dependent and independent variables follow below.

²³ The minimal-maximal vertical axis measures the degree to which a state pursues engagement or containment.

over time, and across countries. Kang argues that “East Asian peace, stability, and accommodation of China is a puzzle because international relations theorists have traditionally associated the rise of great powers with war and instability.”²⁴ To address this puzzle, Kang invokes the constructivist tradition and focuses on identity as the motivation behind why most Asian states are accommodating China. Yet while his assessment of the determinants of Asian responses is thorough, Kang states that there is indeed nuance and variation across how states have accommodated China.²⁵ This dissertation aims to extend Kang’s line of inquiry by exploring the causes of the variation.

THEORY, HYPOTHESES AND PREDICTIONS

This dissertation attempts to explain changes in the policies of countries to China over time, and differences in policies across countries. What are the most appropriate analytical frameworks for evaluating the causes of such change? In selecting among qualitative frameworks, three paradigms dominate the landscape of international relations scholarship: realism, liberalism, and constructivism.²⁶ Each of these paradigms contain concepts and theories which are capable of explaining Asian responses to China. Accordingly, my dissertation employs ideas from each of these paradigms.

As the dominant paradigm in international relations, realism has been widely employed in assessing interstate behavior, and is the “primary or alternative theory in virtually every major book and article addressing general theories of world politics, particularly in security affairs.”²⁷ Containing more variants than an all-you-can eat buffet, realism comprises theories and approaches which explain interstate behavior based on power relations. Regardless of what occurs within the state, differences in power among states determines state behavior. As such, realism differs from other international

²⁴ Kang, 2007a, p. 7.

²⁵ For instance, Kang notes “if anything, this book emphasizes the need for rigorous and systematic study” of the region. Ibid, p. 203.

²⁶ Some argue that there is a fourth paradigm, institutionalism. Summarized by Legro and Moravcsik, institutionalism stresses “the role of international institutions, norms and information. Examples include the transaction cost-based analyses of functional regime theorists and, perhaps, the sociological institutionalism espoused by some constructivists.” (Legro and Moravcsik, 1999, p. 10).

²⁷ Ibid, p. 5.

relations paradigms in that it treats the state as a “black box.” Given the variation in Japan’s, Korea’s and Thailand’s power capabilities relative to China, and shifting policies of the US towards China, the past two decades provide rich empirical data for evaluation under the realist paradigm.

Those who embrace concepts contained in the liberal paradigm argue that state behavior is better explained by the “underlying state preferences embedded in domestic and transnational state-society relations.”²⁸ Change over time in domestic political institutions and systems of government among Japan, Korea and Thailand suggests that applying ideas from the liberal paradigm to explain variation in responses to China might be fruitful.

Constructivism contains theories and explanations as to how culture, beliefs and ideas shape the foreign policies of states. Less precisely defined than the realist or liberal paradigms, the constructivist school “stresses exogenous variation in the shared beliefs that structure means-ends calculations and affect perceptions of the strategic environment.”²⁹ In light of the variation in domestic political beliefs and strategic cultures across Asian states, it also seems that constructivist approaches could be useful in explaining the changes in Asian states’ responses to China.

Realist Explanations—Hypotheses and Predictions

I. Background

Realism and its variants have been used extensively to assess interstate behavior, ranging from the classic cases of interstate behavior during the Peloponnesian War to conflict among European states

²⁸ Ibid, p. 10.

²⁹ Ibid, p. 11. While the constructivist paradigm sounds similar to the liberal one, constructivists argue that ideas and beliefs are the independent, not intervening, variable. In contrast, liberals note that ideas and beliefs can serve as an intervening variable.

prior to the First and Second World Wars. However, the dominant realist approaches since the end of World War II have been formulated from the European experience.³⁰

Realism is an approach to explaining state behavior based on the structure of the international system and states' quest for survival. Its most salient assumptions can be summarized as follows:³¹ 1) states are the principal actors in the international environment, and behave rationally in an international system characterized by the absence of a sovereign (i.e.: an international system under anarchy); 2) states are assumed to have fixed preferences, which are uniformly conflictual; 3) material capabilities are primal, and "interstate bargaining outcomes reflect the relative cost of threats and inducements, which is directly proportional to the distribution of material resources."³²

II. Motivation for Adopting Neorealist Ideas

Theories which utilize these three core assumptions—generally referred to as neorealist or structural realist theories—are more easily testable than the totality of the realist paradigmatic umbrella. Assessing all branches of realism as a whole creates the problem of examining determinants which some theorists may argue belong under the liberal or constructivist paradigms.³³ Classical realism, for example, assumes that morality and the "nature of man"—variables espoused by constructivists—cause states to behave in the way they do.³⁴

In the subsequent paragraphs, I describe and adapt these most widely held and salient concepts of the realist paradigm. While structural realism, or neorealism, is a class of theories which best embody the core concepts of the realist paradigm, my use of these specific terms is not intended to privilege any

³⁰ David Kang is critical of such an approach, noting "for too long, international relations scholars have derived theoretical propositions from the European experience and then treated them as deductive and universal." (Kang, 2007a, p. 23)

³¹ This summary comes from Legro and Moravcsik. See Legro and Moravcsik, 1999, pp. 12-18.

³² Ibid, p. 17.

³³ See, for example, the argument made by Legro and Moravcsik. Ibid.

³⁴ For an example of classical realist thinking, see Morgenthau and Thompson, 1985. There have been efforts to revive classical realist thinking in the name of "postclassical realism." This dissertation does *not* consider postclassical realism for the same reasons that it does not consider classical realism.

one branch of the realist paradigm.³⁵ Rather, employment of the terms structural realism or neorealism is intended as a means of capturing the core concepts of the realist paradigm. Ideas embodied in structural realism have also been invoked by numerous scholars as the most parsimonious of the realist paradigm.³⁶

III. Formulating An Analytical Approach Grounded in Structural Realism

Defining Concepts

The three most salient assumptions of the realist paradigm trace their lineage to the works of Kenneth Waltz. Since state behavior is subject to the constraints of an anarchical, international system, Waltz assumes that states have as their most basic goal that of survival. He notes: “Survival is a prerequisite to achieving any goals that states may have, other than the goal of promoting their own disappearance as political entities.”³⁷ States interact in an anarchic universe devoid of rules, encountering a security dilemma—where one state’s quest for security may prompt others to feel insecure.³⁸ However, Waltz stresses that the international system is not one that is characterized by a constant state of war, but one in which “war may at any time break out.”³⁹

³⁵ Within neorealism, there are two schools: the “offensive,” or “aggressive” school, and the “defensive” school (Taliaferro, 2000, p. 135, see Table 1). Offensive realism asserts that “offensive action often contributes to security,” whereas defensive realism argues that it does not (Snyder, 1991). According to offensive realism, anarchy provides strong incentives for states to expand, as they will do so whenever the benefits outweigh the costs. In a world of offensive realism, states are compelled to improve their relative power “through arms buildups, unilateral diplomacy, mercantile (or even autarkic) foreign economic policies, and opportunistic expansion.” (Taliaferro, 2000) In contrast, defensive realism holds that “the international system provides incentives for expansion only under certain conditions.” (Taliaferro, 2000) Defensive realism allows for alliances and cooperation among nondemocratic states. This dissertation mostly considers the defensive branch of the neorealist school when formulating hypothesis, as they are based on the widely adapted thinking of Stephen Walt. See Walt, 1987.

³⁶ Some social scientists argue that parsimony in theory is superior, but others note that the simplicity of a theory should be based on the nature (simplicity or complexity) of the evidence at hand. See King, Keohane and Verba, 1994, p. 20.

³⁷ Waltz, 1979, p. 91.

³⁸ This rationale can be traced to Waltz: “among states, the state of nature is the state of war. This is meant not in the sense that war constantly occurs but in the sense that, with each state deciding for itself whether or not to use force, war may at any time break out....In any self-help system, units worry about their survival, and the worry conditions their behavior.” (Ibid, p. 102 and p. 105).

³⁹ Waltz notes that “The threat of violence and the recurrent use of force are said to distinguish international from national affairs.” Ibid, p. 102.

The possibility of conflict shapes state behavior and determines state preferences, but the *actual policies or strategies* of states can, and do, vary. While Waltz has noted that survival is a goal of all states, he implies that states often pursue policies which are varied, and that absent a crisis, states may implement policies and strategies which are in service of goals other than simply that of survival. Waltz notes: “The survival motive is taken as the ground of action in a world where the security of states is not assured, rather than as a realistic description of the impulse that lies behind every act of state. The assumption allows for the fact that no state always acts exclusively to ensure its survival. It allows for the fact that some states may persistently seek goals that they value more highly than survival,”⁴⁰ and states “at a minimum, seek their own preservation, and, at a maximum, drive for universal domination.”⁴¹

Conception of Threats

What is considered to be a threat, and what dimensions of power are most valued under the realist lens? Most realists, and especially structural realists, would argue that military power is the primary determinant of security.⁴² Accordingly, most thinking in structural realism is aimed at explaining a state’s military and security response to threats. This outcome obtains since contemporary neorealist thinking was a product of Cold War political system, where the two dominant powers, the US and the USSR, felt threatened by each others’ militaries.⁴³

When confronted with a powerful or threatening adversary, how do states respond? And is the distinction between the terms “power” and “threat” simply linguistic, or do they describe factors which lead to actual cleavages in state behavior?

⁴⁰ Ibid, pp. 91-93. This view is echoed by Legro and Moravcsik, who note that while strategies and policies of a state may change, under neorealism, preferences are static. (Legro and Moravcsik, 1999, p. 13).

⁴¹ Waltz, 1979, p. 118.

⁴² Classical realists have commented on economic power, noting that economic strength can contribute to enhancing a state’s power. However, there is less commentary as to the trade-offs between economic and military strength. Edward Hallett Carr, for example, notes the importance of economic power, but seems to imply that military power trumps economic power. For example, he states: “The supreme importance of the military instrument lies in the fact that the *ultima ratio* of power in international relations is war.” (Carr, 1948, p. 109.) For Carr’s ideas on economic power, see Carr, 1948, pp. 113-120.

⁴³ Waltz, 1979, p. 144.

The structural realist school argues that when faced with a threatening power, states basically have two foreign policy options—balancing, or bandwagoning. Balancing occurs when a state allies with others against a prevailing threat, whereas bandwagoning occurs when states join or align with the source of danger.⁴⁴ Within structural realism, there are also differing voices as to whether states balance against capabilities or threats, but the frequently accepted tenet—and thus the one I adopt—is that states generally tend to balance against threats.⁴⁵ This widely accepted tenet originated from Stephen Walt’s refinement of balance of power theory—what he refers to as balance of threat theory. According to Walt’s thinking, states respond to others which pose the greatest threat, and that the most threatening states need not be the most powerful ones.⁴⁶ Put differently, states are sensitive to military and security threats—not simply military and security capabilities.

When do states balance, and when do they bandwagon? While great powers—strong states that “can contend in a war with any other state in the system”⁴⁷—always balance against a rising threat, structural realists are less unified as to how secondary states respond to threats. Most structural realists argue that states tend overwhelmingly to balance against threats, but some offer differing predictions depending on circumstance.⁴⁸ Most realists would tend to agree with the following premise—that the probability of being able to successfully respond to a threat determines whether a lesser state balances or bandwagons—or, in other words “the weaker the state, the more likely it is to bandwagon.”⁴⁹ Weaker states are also more sensitive to adjacent threats.⁵⁰ For instance, a secondary

⁴⁴ Stephen Walt’s seminal work, *The Origins of Alliances*, outlines the conditions under which states balance or bandwagon by using case studies in the Middle East between 1955 and 1979. Walt, 1987, p. 17.

⁴⁵ This is the view espoused by Stephen Walt. See Ibid.

⁴⁶ Ibid, p. 263. According to Walt, the degree to which a state’s threat varies depends on four broad characteristics: aggregate power, geographic proximity, offensive capability, and perceived intentions.(Walt, 1987, p. 22).

⁴⁷ Ross, 2006, p. 357.

⁴⁸ Robert Ross distills Stephen Walt’s argument that, except for “weak states,” all other states, “not just the great powers, participate in balance-of-power politics and balance against rising powers, reflecting the enduring and consistent systemic affect of anarchy.”(Ibid, p. 363). Ross also summarizes the indeterminism of realism nicely by referring to the work of Jack Levy, who “observes that only the great powers are expected to balance, while ‘lesser states,’ reflecting their ‘vulnerability,’ will sometimes balance and sometimes accommodate, ‘depending on the context.’ See Ross, 2006, p. 362, footnote 22.

⁴⁹ Walt, 1987, p. 29. Robert Ross, for instance, notes that strong states which can will tend to balance, while weaker states will tend to bandwagon.

⁵⁰ Ibid, p. 30.

country sharing an easily-crossed land border with a formidable military power would be prone to alignment with the threat for the sake of its own security, while a similar secondary power, separated by hundreds of miles of ocean from this dominant power, would likely align with other powers to balance against this state.⁵¹

That neorealism was formulated during the Cold War to primarily explain responses to direct and serious military and security threats does not mean that this approach cannot be useful in explaining less mortal conflicts, such as those related to minor territorial disputes or historically-grounded disagreements. Consistent with the implied logic of realism, states would be expected to view territorial disputes or diplomatic disagreements over historical claims to geography as threats. Thus, a higher degree of political or diplomatic conflict would solicit a corresponding critical and decisive response.

Conception of Economic Threats

What would structural realism imply in terms of economic policies? Due to the fact that structural realism was formulated using the Cold War structure as a model for the international system, economic threats are not clearly delineated or specified in the neorealist mindset.⁵² As such, neorealism does not concentrate on explaining a state's foreign economic and commercial policies. However, the realist paradigm is not entirely silent on this subject. Indeed, one is able to deduce hypotheses based on Waltz' logic.

According to Waltz, the structure of international politics limits economic cooperation and interdependence because "a state worries about a division of possible gains that may favor others

⁵¹ This logic derives from the work of Robert Ross. Applied specifically to the case of Asia, Ross argues that the behavior of secondary states is geographically determined. Ross notes that whether lesser states balance or bandwagon depends on "local variation in great power capabilities and that secondary states tend to accommodate rather than balance rising powers." (Ross, 2006, p. 355) While other factors are at play, the implication is that geography—in this case, continental versus maritime states—impacts state behavior. Ross implies that continental secondary states in Asia will tend to accommodate China, whereas maritime states will balance against China. See Ross, 1999.

⁵² This is because the two dominant international powers (and their respective power blocs) in the Cold War, the US and the USSR, did not engage in bilateral economic activity. Waltz, 1979, p. 144.

more than itself.”⁵³ Under the implied logic of structural realism, the nature of the international system will tend to limit trade or other forms of economic engagement because states worry about relative gains—as Waltz notes, “states seek to control what they depend on or to lessen the extent of their dependency.”⁵⁴ This is not to argue for the absence of tension between the imperative of economic and welfare gains and resources devoted to national defense—a tension which realists fully acknowledge.⁵⁵

Taken together, Waltz suggests that, on average, states will tend to value survival as a goal more than others, and that while states are free to pursue policies grounded in other impulses, military and security priorities will tend to override economic and commercial ones—especially during times of crises. When security and economic threats simultaneously confront a state, neorealism suggests that states will respond more to the former, as Waltz notes, “considerations of security subordinate economic gain to political interest.”⁵⁶ Conversely, when neither security nor economic threats confront a state, neorealism would imply that states will pursue goals which maximize their security and prosperity. Thus, while states are not insensitive to economic threats, military and security threats are more influential in motivating state behavior than economic ones.

IV. Propositions

⁵³ Ibid, p. 106.

⁵⁴ Ibid, p. 106. Waltz writes further: “A state also worries lest it become dependent on others through cooperative endeavors and exchanges of goods and services. That is the second way in which the structure of international politics limits the cooperation of states. The more a state specializes, the more it relies on others to supply the materials and goods that it is not producing. The larger a state’s imports and exports, the more it depends on others.”

⁵⁵ Indeed, Waltz writes: “Internationally, many lament the resources states spend unproductively for their own defense and the opportunities they miss to enhance the welfare of their people through cooperation with other states.” (Ibid, p. 107).

⁵⁶ See Ibid, p. 107. This prediction is echoed by John Mearsheimer and Stephen Brooks. Mearsheimer writes: “A state can have no higher goal than survival, since profits matter little when the enemy is occupying your country and slaughtering your citizens. Therefore, when push comes to shove, international political considerations will be paramount in the minds of decision makers.” (Mearsheimer, 1992, p. 222). Brooks notes that “security priorities trump economic capacity whenever the two conflict implicitly presumes states favor short-term military security over long-term military security.” (Brooks, 1997, p. 452).

Given the often nuanced responses of Asian states to China which do not clearly fall in either the ideal-type balancing and bandwagoning categories, I propose to relax and expand the balancing and bandwagoning terminology.⁵⁷ Specifically, I propose a more expansive dichotomy, where *alignment away from*, falls close to, but is not as strong as *balancing*, and *alignment towards* falls close to, but is not as strong as, *bandwagoning*.⁵⁸ To describe the state of bilateral relations, I also draw from the vocabulary of Victor Cha and note that *friction* can occur when an Asian state aligns away from China, and *cooperation* can take place when an Asian state aligns with/tilts towards China.⁵⁹

In addition to the determinants of security threats outlined by Walt—aggregate power, geographic proximity, offensive capability, and perceived intentions—I refine and explicitly include some illustrative examples of security threats to include: territorial disputes, rivalry between two countries over influence in a third country, willingness to escalate nationalistic behavior and sentiments over historical and territorial disagreements, increase in military exercises. Chinese behavior falling into these illustrative categories would be indicative of a threat, as would actual conflict between an Asian state and China over issues in any of these arenas.

Consistent with the broadly accepted tenets of structural realism,⁶⁰ I make several propositions regarding the responses of Asian states to China's rise. As no Asian state is a great power, whether an

⁵⁷ When using the terms *balancing* and *bandwagoning*, their denotations will be consistent with those of Walt. Walt in turn uses these terms consistent with how Kenneth Waltz employed them in *Theory of International Politics*. Waltz credits these terms to Stephen Van Evera. Balancing occurs when a state allies with others against a prevailing threat, whereas bandwagoning occurs when a state aligns with the source of danger. In *The Origins of Alliances*, Walt concludes that balancing behavior is not limited to military alignment in the form of formal or informal alliances. (Walt, 1987, p. 149) In recognizing that balancing and bandwagoning behaviors are not limited to alignments that are militarily significant, Walt, perhaps unknowingly, hinted at a need to transcend the balancing and bandwagoning dichotomy in gauging foreign policy behavior. This is not surprising, since balance of power and balance of threat theories were developed during the Cold War era, and used primarily to explain major power and European conflicts.

⁵⁸ In employing this terminology, I adopt definitions and terminology used by Glenn Snyder that is well summarized by Victor Cha (Cha, 1999a, p. 58). Snyder notes that alignment is defined as “a set of mutual expectations between two or more states that they will have each other's support in disputes or wars with particular other states. Such expectations arise chiefly from perceived common interests.” See Snyder, 1990, p. 105. Cha describes these concepts and principles in Cha, 1999a, pp. 39-40. Alignment towards does not imply that the state is technologically or economically weaker than China.

⁵⁹ Cha, 1999a, p. 58.

⁶⁰ In formulating predictions consistent with the realist paradigm, I will not consider the alternative definition of bandwagoning, “bandwagoning for profit,” which denotes political alignment with the “winning side” simply to realize economic gains. For further discussion about “bandwagoning for profit,” see Schweller, 1994.

Asian state will balance or bandwagon when confronted with a Chinese threat depends on factors outlined in propositions one and two.

- (Proposition #1) Asian states that face security threats from China, and have a high degree of conflict with China, will align away from (balance) China in both political security and economic dimensions if there is a high probability that it can successfully respond to a threat from China.

The following characteristics of an Asian state *increase* the probability that it can respond to a Chinese threat:

- Large territory
- Separation from China by difficult geography
- Great geographical distance from China
- Availability of powerful allies
- Large economic and sophisticated technological base
- Large population

The above characteristics are illustrative, as opposed to inclusive. Possessing more of the above characteristics will increase the probability that an Asian state will be secure from military attack by China, and hence the likelihood that an Asian state will align away from China.

- (Proposition #2) Asian states that face security threats from China, and have a high degree of conflict with China, will accommodate (or bandwagon with) China in both political security and economic dimensions if there is a low probability that it can successfully respond to a threat from China.

The following characteristics of an Asian state *decrease* the probability that it can respond to a Chinese threat:

- Small territory
- Proximity to China by easily-crossed geography

- Small geographical distance from China
- Lack of available, powerful allies
- Small economic and rudimentary technological base
- Small population

Again, the above characteristics are illustrative, as opposed to inclusive. Possessing more of the above characteristics will increase the probability that an Asian state will be insecure from military attack by China, and hence the likelihood that an Asian state will align towards China.

I intend propositions one and two to explain differences in behavior across a set of countries, and what characteristics will make an Asian state more likely to balance versus bandwagon with China. However, given that realists assume balancing is the dominant behavior, I advance additional propositions to clarify how states might balance China, and how a particular state's behavior may change over time. Unlike the characteristics described in propositions one and two, which are relative measures of properties and capabilities that tend to remain static (or change very slowly) over time, propositions three and four describe how Asian states might respond to threats—which have the potential to change within shorter time frames—from months to several years. These threats are expressed in terms of Chinese policy statements or changes in behavior.

- (Proposition #3) Among Asian states which are able to balance, those which are more threatened by China are prone to engage in both “external” and “internal” balancing.

External balancing by an Asian state would entail leaning away from/aligning against China by: deepening its embrace of the US; expanding and strengthening its alliance network to increase its strategic and military options. Internal balancing behaviors would entail: designing and positioning force structures to deter or defeat the Chinese threat, increased spending on defensive/offensive military capabilities; acquisition of technologically advanced weapons systems.

In this study, the term “internal balancing” refers exclusively to state behavior of mobilizing domestic resources, as opposed to relying on external alliances.⁶¹ It does not refer to within state behavior of confronting domestic threats to leadership as encompassed by the term “omnibalancing.”⁶²

- (Proposition #4) Asian states facing security threats from China will tend to limit the scope of their economic engagement with China, and subordinate economic interests in favor of military ones;

As many Asian states confront a variety of threats, realist logic would predict that these states will solicit China’s assistance to mitigate these military/security threats.

- (Proposition #5) Asian states will solicit China’s assistance in mitigating military threats from other, regional states.

Liberal and Constructivist Explanations—Domestic Grand Strategy Hypothesis

I. Background

The previous, neorealist treatment of Asian responses to China assumes that state preferences are fixed, and that all states in the international system share the same preferences—the goal of survival. However, what if this assumption is false, and states’ preferences are not the uniformly conflictual ones delineated by realists?⁶³ Historical evidence from Asia suggests that actual state preferences may

⁶¹ Walt describes this mode of behavior as an alternative to forming alliances to obtain security. Walt, 1987, p. 30.

⁶² David, 1991.

⁶³ While structural realists note that states pursue strategies in service of goals other than the accretion of power and security, the nature of the international system is such that crises and existential threats will punish those states.

have diverged from the assumptions of the realist paradigm.⁶⁴ If this is indeed the case, then Asian states' behavior would be expected to deviate from those predicted by structural realism.

Both liberalism and constructivism are international relations paradigms which aim to explain how variation in state preferences contributes to changes in state behavior. The two are distinct approaches, with liberalism stressing the role of domestic institutions/structures, and relations between the state and society, and constructivism emphasizing the role of beliefs, culture and ideas.

Liberals essentially examine the power-balance *within* a state, and how structural changes affect foreign policy.⁶⁵ This school also argues that the configuration of bureaucratic institutions and politically-placed central government leaders play a role in shaping foreign policy.⁶⁶ The basic premise of this argument is that the domestic structure of states plays a role in shaping the goals, or preferences, of the state, which in turn affects foreign policy. Domestic political institutions capture and represent societal ideas and goals.⁶⁷ Variation in foreign policy across countries, or within the

⁶⁴ If one demands semantic precision and detail, state preferences, not simply strategies of states, diverged from the assumptions of the realist paradigm.

⁶⁵ This type of explanation is consistent with the liberal international relations paradigm. Liberals generally believe that the domestic political systems of states can significantly affect the nature of their interactions. See Doyle, 1997, p. 207. Authors such as Michael Barnett, Helen Milner, Andrew Moravcsik, and Etel Solingen have pushed liberal international relations theories forward through works that examine the role of domestic institutions and actors in shaping state preferences and foreign policy. Michael Barnett explores the domestic political economy of foreign policy behavior, and also examines the effects of the international system on the development of state-society relations. He focuses on war preparation strategies of Egypt and Israel during the Cold War in developing his argument that domestic politics have a palpable effect on the foreign policies of these states (Barnett, 1992). Helen Milner describes the role trade and industry coalitions play in shaping foreign economic (tariff) policy, and examines variation between outcomes across time, and across different industries (Milner, 1988). Etel Solingen explains the foreign policies of states by assessing the role of domestic coalitions, and argues that the grand strategy of the state is often the reflection of the grand strategies of various domestic coalitions (Solinigen, 1994, and Solingen, 1998). In advancing the liberal international relations paradigm, Solingen examines cases in South America, the Middle East, and the Korean Peninsula. Solingen (1994, p. 136) also argues that while domestic forces mold the strategic calculations and preferences of the state, elements in the international system also shape domestic politics, which in turn changes a state's preferences. The effect of the international system on domestic politics and state-society relations is known as the "second image reversed" phenomena, and is discussed in depth in Gourevitch, 1978.

⁶⁶ A more general description is that state-society relations play a key role in shaping foreign policy.

⁶⁷ Moravcsik, 1999.

same country over time, can then be explained by differences or changes in the relations among domestic actors.⁶⁸

Those who accentuate the role of ideas and preferences in shaping a state's foreign policy generally fall under the constructivist school. Yet, they frequently do not abandon discussion of domestic structures and institutions in policy formation.⁶⁹ While the published body knowledge in this school is broad in its scope, with wide variation across how scholars treat the role of ideas and preferences in foreign policy formation, constructivists generally agree that values and norms play a significant role in shaping, and causing, the foreign policies of states.⁷⁰ The general logic behind this type of explanation is that domestic actors interpret history and events, creating a set of beliefs and values which affect state preferences and foreign policy. While acknowledging that the generation and

⁶⁸ Moravcsik advances the liberal international relations paradigm by arguing that state preferences are shaped by various societal pressures, coalitions, institutions and constituencies within the state. Moravcsik distills liberal international theory into three core assumptions: 1) societal groups are the fundamental and primal actors in international politics; 2) states represent some subset of domestic society, and define state preferences based on this representation; 3) interdependent state preferences determine state behavior. Moravcsik, 1997, pp. 518-520. Other scholars who cite the importance of domestic coalitions and state preferences in shaping foreign policy include Etel Solingen and Kevin Narizny. See: Solingen, 1994, Solingen, 2007, Narizny, 2007.

⁶⁹ These non-material factors include deeply held societal beliefs, ideas, culture, history and identity. Constructivist scholarship is broad in its sweep, ranging from examining the roles of psychology and gender in international politics to military culture and doctrine. Scholars employing explanations based on culture and ideas include, for example: Alastair Iain Johnston, Thomas Berger, Elizabeth Kier, Jeffrey Legro, and Martha Finnemore.

Alastair Iain Johnston argues that Chinese foreign policy is primarily explained by a strategic culture that can be traced to Ming dynasty texts, and that based on the case of China, ideational (culture and ideas) variables are not trivial in the analysis of strategic state behavior (Johnston, 1996). Berger employs the historical cases of Japan and Germany and states that domestic actors interpret history which shape beliefs and values, which are in turn institutionalized in the political process (Berger, 1996). While articulating the importance of military organizational culture in shaping military doctrine, Elizabeth Kier notes on the one hand that culture has causal autonomy, but that on the other hand, a military's organizational culture must work within the set of constraints imposed by domestic politics. By deeming military organizational culture as an intervening variable, Kier advances a more eclectic version of constructivism which holds structural conditions to be important as well (Kier, 1996, pp. 187, 204). Echoing Kier's synthetic approach is Jeffrey Legro's analysis of the use of force during World War II, where he concludes that the combination of culture and structure helps explain state decisions (Legro, 1996). In explaining humanitarian intervention, Martha Finnemore states that norms create the necessary conditions which permit state action, but that norms do not determine action (Finnemore, 1996). All of these authors' stances are consistent with Vertzberger's conceptions and explanations of how societal forces act to shape foreign policy (Vertzberger, 1990. See esp. chapter 5).

⁷⁰ Alexander Wendt's article on the agent-structure article is considered as one of the foundational pieces of constructivism. See Wendt, 1987.

evolution of ideas and culture is not divorced from domestic actors and institutions, constructivists generally argue that ideas, not structures, are the more fundamental drivers of policy making.

II. Motivation for Adopting an Approach Synthesizing Liberalism and Constructivism

Contemporary international relations research has frequently integrated liberal and constructivist approaches.⁷¹ In the practical world, the interaction of domestic institutions and state society relations are almost inseparable from the collective ideas and beliefs which modulate such interactions. Institutions and domestic structures can often shape the evolution and robustness of a state's beliefs as well. So-called "liberal constructivists" or "ideational liberal" scholars advance arguments fusing elements from both liberal and constructivist traditions.

In line with recent international relations scholarship straddling the liberal and constructivist paradigms, I propose that a synthetic, ideational-liberal approach may offer explanatory power over the puzzle of differing Asian responses to China. Indeed, the general pattern of post WWII politics in Asian states offers a rich body of evidence to draw upon for an ideational-liberal type of analysis based on domestic causal variables. The relative newness (relative to the realist approach) of the synthetic approach necessitates a more inductive means of generating a theory or hypothesis. In the subsequent paragraphs, I formulate an explanatory approach that I intend to probe against empirical evidence from the cases of Asian responses to China. For the sake of identification, I term this approach "domestic grand strategy."

⁷¹ See Moravcsik, 1999, p. 680 fn. 7, for use of these terms. Other examples of constructivist articles that rely heavily on liberal principles are found in *The Culture of National Security*. They are Berger, Kier, Finnemore and Risse-Kappen. Berger states that domestic actors interpret history and other experiences, formulating a set of beliefs and values which are then institutionalized into the political system. However, culture does change incrementally in response to both domestic and external events. Kier argues that (military) organizational culture functions as an intervening variable in shaping military doctrine, but implies that domestic political constraints play a significant role as well (See also Kier, 1997, p. 32). Finnemore argues that norms do not determine state action, but create the permissive conditions (in other words, antecedent conditions) under which states can implement various policies. Risse-Kappen takes a liberal-constructivist approach to explaining the durability of the NATO alliance after the end of the Cold War. Among other points, he asserts that "the interests and preferences of national governments have to be analyzed as a result of domestic structures and coalition-building processes responding to social demands as well as to external factors such as the (material and social) structure of the international system." (Risse-Kappen, 1996, p. 365).

III. Formulating a Domestic Grand Strategy Hypothesis

Defining Concepts

The domestic grand strategy hypothesis focuses on the mutual influences of domestic institutions in shaping the preferences of elites—those ultimately responsible for foreign policy—and the role of these elites in crafting institutions, and configuring the relationship amongst these institutions, which perpetuate their preferences. Accordingly, I propose that one should examine *both* the structure of domestic institutions, and the larger body of values, norms and preferences of the states' elites.

In the domestic grand strategy synthetic theory, I define the term *state structure* as the configuration of interest groups and political-economic institutions within the domestic political landscape. Examples of these institutions would include the executive leadership (office of the president or prime minister), military, ministries (often referred to as “bureaucracies”), or businesses. The relative power of each of these institutions, and the patterns of interaction among institutions, affects policy outcomes. This is because the voice of the state in foreign affairs can largely be determined by constituencies closest to the leadership. State structure is determined by, and also shapes, state preferences and norms. And norms held by state elites can affect the pattern of configuration among institutions. The interaction of state structure and ideation thus forms what I call a “state type,” somewhat paralleling the term *regime*.⁷²

From where do the domestic explanatory variables in this “domestic grand strategy” approach come? This dissertation will not venture into detailed explanations of the profound sources of broad cultural determinants. Instead, by narrowing the scope of the study to focus strictly on the definitions of grand strategy among the state elite, and the institutionalization of these definitions, I propose a simple, general model behind the gestation of these domestic explanatory variables.

⁷² My use of the term “state type” draws inspiration from T.J. Pempel’s concept of the “regime,” which he defines as consisting of three elements: socioeconomic alliances, political-economic institutions, and a public policy profile. My state type concept differs from Pempel’s regime in that I consider the glue which binds institutions in various figures to be that of ideation—definitions of national security. On Pempel’s concept of the regime, see Pempel, 2000, p. 20.

Under the domestic grand strategy hypothesis, I surmise that history, ideas and institutions interact in an iterative manner to influence state preferences and foreign policies. That history, in the form of political crises, can shape and change underlying ideas and debates, is also not a new idea.⁷³ The figure below partially illustrates this concept.

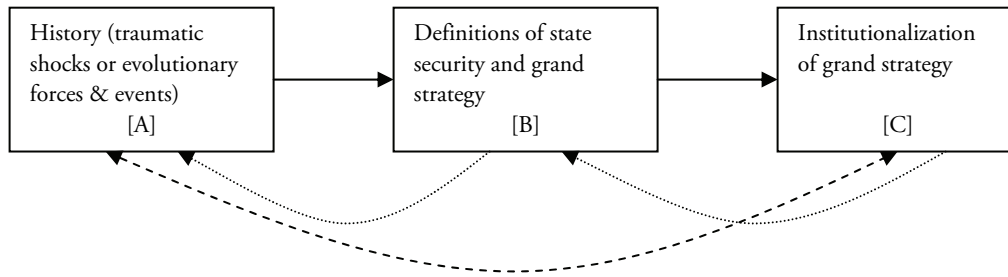


FIGURE 1.1

As shown above, I propose that history and events [A] shape definitions of state security among elites [B], who in turn institutionalize these visions of grand strategy [C]. Institutionalization of strategic concepts causes them to endure over time, influencing the strategic preferences of subsequent state elites (dotted arrow between C and B). This is not to say, however, that definitions of state security and institutionalization of these definitions have no role in shaping history and events (shown in dotted line between B and A, and C and A). However, I surmise that most often, events lead to changes in definitions of grand strategy among state elites, who in turn institutionalize these conceptions.

Domestic Grand Strategy Hypothesis—Why State Types Matter to Foreign Policy

Consistent with scholarship advanced by liberals and constructivists arguing that state behavior co-varies with domestic state structure and ideas, I propose a model whereby state behavior co-varies with state type. This appears to be a feasible model for the domestic grand strategy hypothesis as the

⁷³ Moravcsik discusses this concept in an introductory essay to a series of constructivist articles assessing European integration. He observes that most scholars in the series of essays proposed that “underlying ideas and discourses change only at rare ‘critical junctures,’ which arise in response to political crises.” Moravcsik, 1999, p. 671.

variable, state type, captures both state structure and ideas. The following schematic illustrates the model:

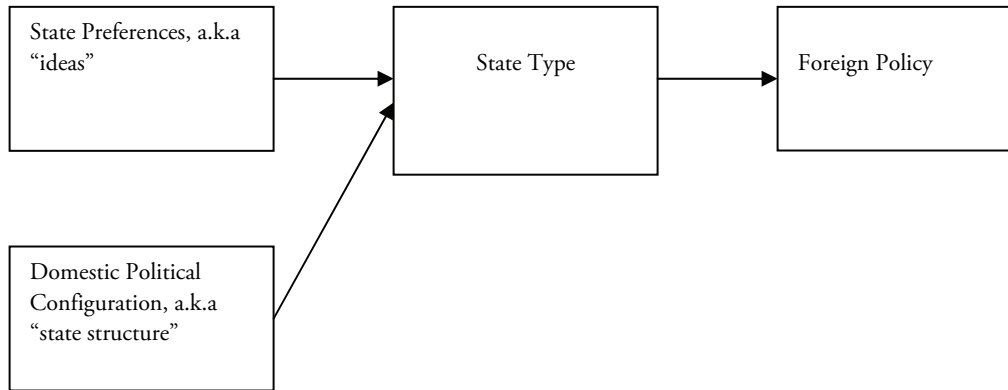


FIGURE 1.2

The Model: Defining Types of States and Their Preferences

To frame my analysis of how state types can play a role in determining state behavior, I propose a notional dichotomy to illustrate variation in a state's structures and ideas: the Asian developmental state, and the laissez-faire state.

This Weberian, idealized typology is useful for thinking about Asian states because many embrace concepts of security which are different from those assumed under neorealist theory. These Asian states do not disvalue "security;" their conception of what constitutes security and power is simply different from what neorealism presumes. Asian developmental states often embrace economic prowess and technological advancement as a means to stability, power and prestige. Though these determinants of power are mostly domestic in nature, and center around non-military factors, I propose that it is worthwhile to examine a state's thinking on these "non-security" attributes because of their security and foreign policy implications. In other words, Asian developmental states might have different foreign policies from non-Asian development states.

The counterpoint to the Asian development state would be one in which the economic and security affairs of the state are divorced. As a foil for better understanding the Asian developmental state, I adopt the term “laissez faire state” for describing its opposite.

The Asian Developmental State Type

1. The Importance of The Asian Developmental State Type—Background

Why do many post WWII Asian nations possess developmental state characteristics? Part of the answer can be traced to the influence of Japanese colonialism. One consequence of Imperial Japan’s colonization of Korea and Taiwan, and general expansion and influence in Asia prior to and during the Second World War, was that the Japanese Imperial model—which already had developmental state attributes—became imprinted in the minds of many post-war leaders.⁷⁴ When WWII concluded, many of these erstwhile Japanese colonies emulated the industrial and economic development model of Imperial Japan—minus the militarism. For example, postwar Korean leaders studied the Japanese economic development model closely, and the general sense of economic urgency and need to rebuild after the devastating war spurred the adoption of development state characteristics.⁷⁵ Other Asian states, such as Thailand and Indonesia, also emulated portions of the Japanese developmental model.⁷⁶

The fact that many Asian states were previously colonies, and were newly created states after WWII, served as another reason for the adoption of the developmental state model. These fledgling nations were not only badly in need of reconstruction and poverty alleviation,⁷⁷ but for years after the conclusion of the war, they also confronted a variety of domestic threats to their existence:

⁷⁴ For example, during the pre-WWII period in Imperial Japan and Thailand, the military supervised national economic growth and industrialization to nurture armed forces which were capable of resisting colonial powers. I am grateful to Eric Heginbotham for this insight. Imperial Japan embraced mercantilism in the traditional sense, leveraging natural resources and nurturing technological advancement for the goal of enhancing military power. For this perspective, see Samuels, 1994.

⁷⁵ Atul Kohli describes in detail the Japanese lineage of Korea’s developmental policies. See Kohli, 1999.

⁷⁶ Thailand’s military, which was intimately involved in crafting Thailand’s postwar national development strategy, had extensive contacts with the Japanese military during WWII. See Heginbotham, 2004, pp. 127-129.

⁷⁷ For further elaboration, see Vogel, 1991, esp. pp. 87-88.

insurgencies, communist rebels, and ethnic strife. To their leaders, the fragility of these newly created states triggered a sense of urgency to placate domestic threats through either forceful means, or incentives.⁷⁸ Leaders of many Asian states chose both, employing varying degrees of authoritarian rule (as in Korea, Thailand, Indonesia) to create an environment stable enough to attract foreign investment and economic development.⁷⁹ Industrial, foreign trade, and economic policies were adjusted to harness the abilities of entrepreneurs and the white-collar middle class, but nascent Asian governments also implemented programs to win the trust of the poor. To “demonstrate the intent that all would have a share of future wealth,” Korea and Taiwan implemented land reform programs to redistribute wealth and level the playing field.⁸⁰ Indonesia utilized agricultural price guidance to demonstrate an emphasis on equitable growth.⁸¹

⁷⁸ I am grateful to Eric Heginbotham for this insight. General Park Chung Hee, a former military officer in the Japanese Imperial Army, implemented a state-directed economic growth strategy that was linked with stabilizing domestic affairs after the social and economic crises which plagued the Rhee leadership. Park had said “When a nation’s survival is at stake, politics, economy, culture, everything should be organized and mobilized for that single purpose.” (Woo, 1991, p. 118). For more on the economic, political and social instability after Rhee, see Kim, 2007, pp. 93-97. Thai elites, which included the military, believed that economic development was necessary to successfully combat communist insurgents and impose order. (Wattanayagorn, 1998, p. 422). In Thailand, General Sarit implemented a system of despotic rule combining modernization, economic development, and fascist/patriotic ideals to unify Thailand and create a national consciousness. Sarit’s vision for development was couched in a paternalistic mindset where legitimacy for policies were backed by his relationship with the Thai king. An emphasis on modernity, hygiene and cleanliness were partial motivation for Sarit’s implementation of water and road projects in rural Thailand. (Chaloemtiarana, 2007, pp. 151-155). In Indonesia, President Suharto implemented the “New Order” as a means of pursuing economic development to bring stability to the nation. About Indonesia’s economic developmental model, Jun Honna writes that “Developmentalism, or modernization ideology, provided the military with a rationale that identified political stability as the precondition for development, and this logic encouraged the officers to think that the ‘long-term’ military control of politics was justifiable since modernization was a decades-long national project.” (Honna, 1999, p. 79)

⁷⁹ In the case of Indonesia, “army leaders believed that military rule would ensure maintenance of political stability needed for economic development. The government’s role was seen largely in terms of creating conditions favorable for the exploitation of new commercial opportunities by foreign investors and Indonesian business interests. In the long run, economic development was expected to bring about a general uplift in the living standards of the mass of the people. The army’s conception of economic development was thus primarily oriented toward the interests of the elite and the white-collar middle class.” (Crouch, 1988, p. 273).

⁸⁰ World Bank, 1993, p. 13.

⁸¹ Ibid, p. 13.

I devote significant space to describing the nature of the Asian Developmental State because the attributes of this type of state have been enduring in many Asian nations. The Appendix describes the reasons for the Asian Developmental State's longevity.⁸²

2. The Asian Developmental State—Intellectual Lineage

The concept of the development state is grounded in both the state's structure, or regime, and the manner in which the state shapes national economic priorities, and has its contemporary origin in post WWII East Asian states. While figures such as Alexander Hamilton and Friedrich List have espoused the concepts of state-directed economies and mercantilism, more contemporary and salient usage of the development state moniker originated from Chalmers Johnson—who describes this type of state in the Asian context as a Capitalist Development State.⁸³ Other contemporary scholars utilize the term developmental state to characterize state apparatus emphasizing reconstruction and economic growth in many postwar Asian countries.⁸⁴

The Asian developmental state is not a precise or restrictive construct, but the following are some broadly accepted precepts. My outline of these attributes, organized along ideational and structural, are meant to be illustrative.

3. Ideational Attributes of the Asian Developmental State

A. Emphasis on Technology

In defining the Asian developmental state ideal-type, I add to previous conceptions of what it means to be a developmental state. What has often been overlooked in prevailing discussions of the developmental state model is the presence of defining national security in economic and technological terms. Some scholars have employed the terms “technonationalist” and “mercantile

⁸² See Appendix, Note 1

⁸³ Johnson, 1993. There is much debate over the origins of the development state, with some ascribing a German lineage to Japan's development state structure and economic success (Cumings, 1999, p. 64).

⁸⁴ Meredith Woo-Cumings has written extensively on this topic. See Woo-Cumings, 1999a.

realist” to describe Asian developmental states which embrace economic and technological definitions of security.⁸⁵

Asian states whose elites define security in economic development and technological terms tend to view industrialization and economic growth as a means to building a great nation and achieving overall state security.⁸⁶ Economic growth and development is often a goal in its own right, part of a nation-building strategy leading to not only enhanced domestic vitality, but also international prestige and stature: “national economic power can be enhanced through industrial and trade policies designed to create comparative advantage in critical high-technology sectors.”⁸⁷ It is here that I differentiate economic definitions of security from traditional definitions of mercantilism, whereby the accumulation of economic wealth is for the primary purpose of enhancing military power.⁸⁸ Confidence in the role of technology as an instrument of national power also predates validation by economic theory and models, and extends beyond a simple means of accelerating economic growth. The embrace of technology is often at the canonical level of the national prestige construct, as in the case of Japan, where “technological innovation and national welfare are indissolubly linked.”⁸⁹ The promotion of technological advancement is accomplished through both domestic industrial policies, and external trade regulations.

B. Emphasis on Equitable Economic Growth

⁸⁵ See the work of Eric Heginbotham and Richard Samuels. Heginbotham and Samuels, 1998. See also Samuels, 1994.

⁸⁶ Elites who define security in economic terms are not necessarily sensitive to the relative economic gains of other states or potential adversaries.

⁸⁷ See Heginbotham and Samuels, 1998, p. 190. Heginbotham and Samuels attribute this view to the edited volume of Paul Krugman. See Krugman, 1986.

⁸⁸ In this stereotypical view, “plenty” was simply a means to “power,” which equated to military power and acquisition of colonies. See Jacob Viner for a survey of these views (Viner, 1948).

⁸⁹ Samuels, 1994, p. 31. Richard Samuels notes that the Japanese say technology as “a holy grail,” and that they embraced technonationalism—“the belief that technology is a fundamental element in national security.”(Samuels, 1994, pp. ix-x). Of technonationalism and the ability of this ideology to affect the domestic political-economic regime, Samuels notes: “technonationalism is an ideology, and like all ideologies it is a force that precedes and informs the institutions of an entire national economy as well as strategies for national security. Institutions are more than formal organizations in this context, of course, and in particular they include the network of protocols-the rules and practices that guide and constrain social, political and economic choice. These protocols thus express the values bound up in ideology and provide behavioral and institutional expressions of national ideology.”(Samuels, 1994, p. 31.)

Another common thread is the notion that economic development is predicated on having a state which can “create and regulate economic and political relationships” in support of industrialization.⁹⁰ The type of growth desired is not unbridled economic development, but rather, a more equitable form of growth where gains can be more evenly distributed across the country as a means of enhancing domestic stability and viability of the state.⁹¹

To achieve rapid economic growth, some developmental states incorporate a plan-rational, or plan-oriented, market economic system.⁹² The economic motivation is based not on classical theory (Ricardian efficiency) of price competition, but on notions of innovation and technological change as the engine of growth—Schumpeterian efficiency.⁹³ Developmental states sometimes implement a twin-pronged strategy comprising an industrial policy—to develop key domestic industries—and a strategic trade policy—to regulate foreign trade.⁹⁴ This occurred to a greater degree in Japan and Korea, and less so in Taiwan, Thailand or Indonesia. The state is a key player, sharing a role with the private sector by involving itself intimately in various “strategic industries” that state elites deem necessary for economic growth.⁹⁵ Often central to Asian developmental states’ strategies is the

⁹⁰ Chang, 1999, pp. 182-183. Chang also provides a strong summary of previous scholarship and literature on the role of the state in economic development.

⁹¹ Japan’s former Vice Minister of Finance, and influential academic Sakakibara Eisuke captured the linkages between economic growth and societal stability in a 2001 interview, stating: “During the course of the last 100 years, we succeeded in transforming our economy from the agricultural economy to the industrial economy particularly after World War II. In that process we established a system which could successfully avoid instability in the economy and the society.” (Sakakibara, 2001).

⁹² The “plan rational” term comes from Johnson, 1982.

⁹³ Tyson and Zysman, 1989b, p. xvii. According to Tyson and Zysman, Ricardian efficiency is “the allocation of resources according to their effects on current economic conditions.” Schumpeterian efficiency is the “allocation of resources according to their effects on the pace and direction of technological change.” (p. xvii)

⁹⁴ Strategic trade policy and industrial policy are two terms that are often mistaken for one another, or erroneously conflated. Strategic trade policy, which is actually “trade under increasing returns,” focuses on promoting specific exports and limiting specific imports. Industrial policy focuses on the development of key domestic industries with the international trade agenda placed in a secondary role. These definitions come from Wolf, 1997, p. 12. This definition of strategic trade policy differs from that used by other economists. For a game-theoretic analysis of strategic trade policy, see Brander, 1995.

⁹⁵ While classical economic theory assumes that nations should export what is in their comparative advantage, Asian developmental states believe that comparative advantage can actually be created through industrial and strategic trade strategies. The principle of comparative advantage is often referred to as Ricardian comparative advantage, after the economist David Ricardo who coined the term. Comparative advantage describes a relationship where one country (or party) is able to produce a good or service at a lower opportunity cost than the other party. When two countries’ have comparative advantages which are complementary, then economic

nurturing of high technology and other high-value added industries.⁹⁶ This strategy is grounded in thinking that high technology industries serve as the “major building blocks of national competitiveness;”⁹⁷ that a vibrant technology sector generates greater spillover benefits for the rest of the domestic economy. In the cases of Japan and Korea, a history of close coordination between firms and governments helped to nurture competitive advantage in critical industries.⁹⁸

C. Emphasis on Managed and Strategic Trade Policy

Since trade is seen as a means of strengthening a state’s economic standing, development states tend to also stress rules and reciprocal concessions in their foreign economic policies.⁹⁹ The regulation of foreign trade in the development state is grounded in the theory of trade with increasing returns—strategic trade—which postulates that it is possible to obtain oligopoly profits in certain industries.¹⁰⁰ Developmental states (Japan to a greater degree, Thailand to a lesser degree) adopted a strategic trade policy in part because the domestic model of economic growth is based less on consumer

theory suggests that trade should occur. Why create comparative advantage? There was the belief that the production and export of certain products would enhance national wealth at a faster rate than simply producing and exporting what was in the country’s endowed comparative advantage. This provided motivation to *create* comparative advantage. For an economic perspective of this view, see: Hausmann, Hwang and Rodrik, 2007

⁹⁶ The targeting of particular “sunrise” industries based on their potential for economic growth and change was grounded in Schumpeterian theory, “the notion that competition in the form of new products and processes is the real engine of growth over time.” (Dosi, Tyson and Zysman, 1989, p. 4).

⁹⁷ Tyson, 1992, p. 2. Numerous scholars have assessed the implications of nurturing high-technology industries, and promoting high-technology exports, on national competitiveness. Tyson captures the ideas and evidence in a succinct, policy-relevant manner. She notes that “trade theory suggests and empirical evidence confirms, success in high-technology industries bestows national benefits on productivity, technology development, and high-wage job creation,” and “Technology-intensive industries violate the assumptions of free trade theory and the static economic concepts that are the traditional basis for US trade policy. In such industries, costs fall and product quality improves as the scale of production increases, the returns to technological advance create beneficial spillovers for other economic activities, and barriers to entry generate market structures rife with first-mover advantages and strategic behavior.” (Tyson, 1992, pp. 2-3)

⁹⁸ Tyson summarizes research affirming this type of strategy, by noting the research of Ernst and O’Connor: “Oligopolistic competition and strategic interaction among firms and governments rather than the invisible hand of market forces condition today’s competitive advantage and international division of labor in high-technology industries.” (Tyson, 1992, p. 3, cites Ernst and O’Connor, 1992).

⁹⁹ Johnson attributes these characteristics to a plan rational state. I, however, extend these to the development state. See Johnson, 1982, pp. 10-34. Also, see above reference regarding trade with increasing returns and the concept of creating comparative advantage.

¹⁰⁰ Cline, 1986, p. 230. Sometimes, as in the case of Japan and Korea, a strategic trade policy is motivated by “nationalist mobilization for export oriented growth.” (Woo-Cumings, 1999b, p. 19).

consumption—as prescribed by traditional economic theory—but rather that of production.¹⁰¹ While this strategy espouses gaining market share in order to maximize profits, it often results in companies operating at excess capacity. Consequently, goods are often sold, or “dumped,” at lower prices overseas than they are domestically.¹⁰² As with industrial policy, high technology industries and expertise are afforded special attention in the trading policies of Asian developmental states because of the means of these industries to accelerate economic growth and the accretion of national wealth.

D. Views of Underdeveloped Markets

Asian developmental states may also take a strategic view of underdeveloped markets and economies, not simply as sources of cheap labor, but also to serve as markets and to form an integral part of a manufacturing chain. In Asia, Japan was the early adopter of this strategy, followed by Korea. In Japan’s conception of the architecture of industry, key technologies and advanced production remain in the home country, but older technologies are diffused to lesser-developed countries.¹⁰³ Lower labor costs in less-developed countries means that the production parts can be outsourced to affiliates based in these less-developed states, while at the same time nurturing these countries as a production base for exports.¹⁰⁴

E. Views of More Developed Markets

As with underdeveloped markets, Asian developmental states tend to take a strategic view of more developed and more technologically advanced economies. Asian developmental states view more advanced economies as competition, but also a valuable source of investment, capital, and technological expertise. More developed markets can also be complementary with Asian developmental states in terms of trade, allowing these economies to serve as a valuable destination for

¹⁰¹ Tyson and Zysman explain this concept, see: Tyson and Zysman, 1989a, pp. 82-86.

¹⁰² Zysman and Doherty, 1995, p. 23. “Dumping” often resulted in trade friction and conflict.

¹⁰³ While Michael Borrus’ study examines Japan, Korean industries have emulated the Japanese model.

¹⁰⁴ Borrus, 1993, pp. 72-73. Borrus also notes that Japanese firms exerted strict control over the transfer of technology to affiliates abroad, preferring to maintain a tight grip on intellectual property, and often using affiliates simply as a means of assembling kits that were shipped from Japan. The completed goods were shipped back to Japan as inter-firm transfers. See Borrus, 1997, p. 11.

the export of products. In Asia, Japan, Korea and Thailand have all utilized the US as a source of investment and technological expertise. And during the 1970s and 1980s, Thailand also saw Japan as a valuable export destination and source of capital.

F. Views of Capital Controls

All Asian developmental states have, at some point in time, enacted capital controls by limiting either foreign investment or borrowing.¹⁰⁵ Part of this motivation stems from a fear of having foreign interests control domestic enterprises or sectors. Wariness of losing domestic enterprises and key industrial sectors to foreign control obtains because developmental states view foreign direct investment (FDI) as a means “to entangle allies and to create dependence that serves national ends.”¹⁰⁶ Accordingly, developmental states will tend to restrict inward investment, especially in key industrial sectors.¹⁰⁷ Regulation of capital flows also originates from a desire of the state to have greater control over the dissemination of capital.¹⁰⁸ In other words, if the government has control over capital, then it has the ability to co-opt businesses, and shape the structure of foreign trade. Power over the distribution of capital could be further enhanced with incentives as part of an industrial policy, and/or (usually and) the incentive of protection through a strategic trade policy.

4. Structural Attributes of Asian Developmental States

Asian developmental states’ domestic political configurations are also characterized by close, collusive and symbiotic relations between political elites and key business interests.¹⁰⁹ The political elites often

¹⁰⁵ Pempel, 1999, p. 151.

¹⁰⁶ Heginbotham and Samuels, 1998, p. 194.

¹⁰⁷ Borrus, 1993, pp. 72-73.

¹⁰⁸ Woo-Cumings summarizes important arguments made about the importance of state control over the national structure of finance in the development state. Chalmers Johnson argues that state control over finance was a defining feature of the development states Japan, Korea and Taiwan. John Zysman, elaborating on borrowed insights of Alexander Gerschenkron, noted that credit-based financial structures (banks, state lending) could serve as conduits of industrial policy. Zysman, 1983, and Johnson, 1987, cited in Woo-Cumings, 1999b, p. 11.

¹⁰⁹ In Japan, for example, the government worked closely with business associations to formulate new strategies. See Tyson and Zysman, 1989a, pp. 115-116.

comprise the leadership (presidential office or head of government), economic bureaucracy and/or military, while the business community is represented by enormously wealthy and large corporations, and business associations. State-industry interactions are instrumental in forging growth, as “it is the interaction of governments and private actors that creates the political, economic and institutional settings in which growth occurs.”¹¹⁰ In the history of Asian developmental states, government-industry coordination was facilitated by what the World Bank terms “deliberation councils,” which served as an “institutionalized form of wealth sharing aimed primarily at winning the support and cooperation of business elites.”¹¹¹ Some, such as Japan and Korea, had a history of more formalized cooperation mechanisms than others, such as Thailand or Indonesia. At times, there is an “iron triangle” type of symbiotic relationship among the economic bureaucracy, legislature and business community. The configuration of the domestic political landscape in Asian developmental states means that these institutions play a significant role in shaping both domestic and foreign policy, and that the military can be employed in the service of economic development goals—a situation that was especially pronounced in Thailand and Indonesia.

The Laissez-Faire State Type

In the idealized typology of states, I term the non-developmental state as a laissez-faire state. As I propose the concept of the laissez-faire state as a foil for examining the Asian developmental state, the ideal-type laissez-faire state does not actually exist. But, in general terms, the laissez-faire state’s role in industrial and trade policy is kept to a minimum.¹¹² Because of a belief that maximum benefits accrue to open markets, a laissez-faire state is one which practices unilateral free trade.¹¹³ While there are rules and regulations in a laissez-faire state, the government does not involve itself with the substantive matters of economic development. Enterprises in a laissez-faire state would generally be allowed to enter and exit industries as they pleased, and engage in unencumbered international free trade. In such an idealized state, there would not be any trade or industrial policy, *per se*.

¹¹⁰ Zysman and Doherty, 1995, p. 19.

¹¹¹ World Bank, 1993, p. 13.

¹¹² To borrow from the lexicon of Chalmers Johnson, the laissez-faire state (what Johnson calls a market rational state) stresses economic “efficiency” over “effectiveness.” (Johnson, 1982, p. 21).

¹¹³ Chung, 1995, p. 6. For additional background on the case for unilateral free trade, see Bhagwati, 1988, pp. 24-25.

In the laissez-faire state, foreign security, military and political policy will not be driven by economic and technological interests. But what are the security preferences of a laissez-faire state? While the model I construct divorces military and security policy from economic policy, I shall not assume that the laissez-faire state does not have *any* interest in survival. The laissez-faire state is indeed still a state, and therefore I impute security preferences to such a state which are generally consistent with the assumptions held under the realist paradigm. Such states may behave in a manner expected under the realist paradigm, but one key difference is that domestic political factors are at play in determining state preferences and ideation.¹¹⁴ Another difference is that, unlike the assumed behavior of states under neorealist thinking, laissez-faire states will not actively encourage or restrict foreign trade or investment.

Summary of State Types

The table below summarizes some of the basic qualities of Asian development states versus laissez-faire states. Not all Asian developmental states or laissez-faire states possess *all* of these features to equal degrees:¹¹⁵

	Asian Developmental State	Laissez-Faire State
Economic	State guided; state intimately involved in industrial policy; state (and sometimes military) coordinates with key business sectors; emphasis on technological prowess	Free market; state may serve as a regulator but not be involved in substantive matters of business or industry
Political	Bureaucrats, often economic bureaucrats, play a major role in domestic and foreign policy	Political elites (ranging from elected officials, leaders of military juntas, heads of state and those of close rank to the head of state) play a major role in domestic and foreign policy

¹¹⁴ Unlike the realist paradigm, I do not assume that a state's military and security policies are universally conflictual. I do not view the domestic process as a "black box," and instead assume that laissez-faire states will, through domestic processes, formulate preferences which will lead the state to behave in manners relatively similar to what one would expect under a neorealist formulation.

¹¹⁵ Inspiration for this table derives from Heginbotham, 2004, p. 72.

Goals of leadership/elites	To promote national strength and stability through industrialization and technological advancement as a means to rapid, sustained economic growth; gains from growth to fund domestic development and construction projects; “effectiveness” of policies to meet GDP growth goals	“Efficiency” of the economic system
National Security Concept	Security of state defined in economic and technological terms; economic strength is not simply a means of achieving a strong military; threats are seen as economic—for example, technological dependency, competition in key industrial sectors, predatory/protectionist trade policies.	Economic or technological strength do not factor into the security conception of the state; trade or commerce by firms are not viewed as weakening or strengthening the state; security defined in survival and national territorial terms; threat of military attack is taken seriously
Foreign economic policy	Rules and reciprocal concessions emphasized; Increasing returns to scale or “strategic trade policy;” licensing of technology from abroad; protection of critical industries	None, as this is a “laissez-faire” state when it comes to economics and trade
Capital controls	Limitations on foreign investment in domestic enterprises; restrictions on capital flows	Liberal rules on foreign investment in domestic enterprises; minimal restrictions on capital flows
Prestige of domestic employment opportunities	Civil service and bureaucracies most sought after and prestigious positions	Private sector most prestigious and sought after positions
Examples	Post WWII Japan Post WWII South Korea Post WWII Singapore Post WWII Taiwan Post WWII France	Pre-1997 Hong Kong

TABLE 1.1

IV. Explaining Policy Towards China Based on The Domestic Grand Strategy Hypothesis

I hypothesize that Asian states which tend towards the developmental state ideal-type will have different foreign policies than those which tend towards the laissez-faire ideal-type. The mechanism through which this causal change occurs is as follows: different state types result in different state preferences. The following schematic illustrates the causal chain of thinking:

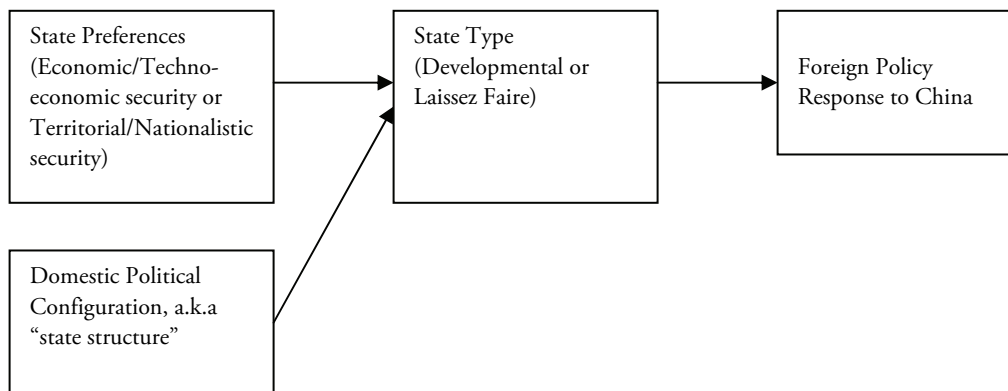


FIGURE 1.3

Threat Perceptions of Developmental States

As an idealized type, developmental states conceive of security in technonationalistic and economic terms. It follows that threat perceptions of Asian developmental states will be different from those of non-developmental states. The following hypotheses of how Asian developmental states may respond to economic threats is drawn mostly from the work of Heginbotham and Samuels.¹¹⁶ As economic growth and technological prowess are synonymous with security, developmental states will intervene in their economies “to nurture domestic producers...and protect domestic markets.”¹¹⁷ Such states will also be averse to technological dependency, and consider other technologically advanced states who can establish technical standards and dictate market rules and market shares as mortal threats.¹¹⁸

¹¹⁶ Heginbotham and Samuels, 1998, pp. 191-194.

¹¹⁷ Ibid, p. 192.

¹¹⁸ Ibid, p. 192. Heginbotham and Samuels attribute this viewpoint to George Gilboy.

The kiss-of-death for developmental states would be the “hollowing out” of domestic industries, a process by which national firms are reduced to “assemblers, handlers and retailers unable to reap the full profits of manufacturing and innovation.”¹¹⁹ Developmental states will consider another state to be a threat if that state competes in similar sectors. Such states will also protect domestic firms in key industrial sectors, and nurture the affiliates of these firms abroad.

What do developmental states consider as opportunities or “friends” in the international system? I adapt the hypotheses of Heginbotham and Samuels and propose that states which are less technologically advanced, and do not pose a competitive threat in key industrial/technological sectors—states that often possess complementary economies—will likely have an affinity for one another.¹²⁰ Complementary economies include those with lower production costs—such as labor or capital costs. Asian developmental states will find it in their own economic interest to gravitate towards complementary states by strengthening ties through trade agreements, FDI, or other forms of economic and political cooperation.¹²¹ National firms of these states may also be encouraged to expand their production networks to include these complementary economies.

Tradeoffs Between Military Security and Economic Security

To say that Asian developmental states are sensitive to technological and economic threats is not to say that they are insensitive to military/security threats. Many Asian developmental states, such as Korea or Indonesia, were as sensitive to external security threats as they were to economic ones shortly after their founding. However, a developmental state’s foreign security and economic policies are likely to be linked and exhibit coordination. Such states will see greater tension in negotiating the tradeoffs between military and economic threats.

¹¹⁹ Ibid, p. 192. A good example hollowing-out was the erosion of the US semiconductor industry by the Japanese between the 1970s and late 1980s. Prestowitz provides a good description in Prestowitz, 1988, pp. 26-70.

¹²⁰ Heginbotham and Samuels advance hypotheses for mercantile realist states, but I propose that developmental states will respond to opportunities in a similar manner.

¹²¹ Heginbotham and Samuels, 1998, p. 192.

When confronted with competing economic and military threats, Asian developmental states are likely to accept a greater degree of military and security risk to obtain economic and technological gains.¹²² This is because their elites will interpret external threats and opportunities through “development” lenses, as opposed to “military/security” lenses. And they are prone to avoid conflict or tension with states that bring them economic benefits. These states may even employ political or security aspects of its foreign policy to support economic and commercial goals, leading to the “flag preceding trade.”¹²³

While Asian developmental states will be willing to tolerate a greater degree of security risk and tension over diplomatic, historical or minor territorial disputes, this does mean that such states will risk dissolution or annihilation simply because of possible economic gains.

The Mirror Image of the Asian Developmental State—The Laissez Faire State

Laissez faire states, on the other hand, will formulate security or military policies without taking into account the nation’s collective economic or technological interests. Since a laissez-faire state would be prone to practice unilateral free trade, it would tend to allow enterprises and individuals to do as they pleased concerning international trade.

This is not to argue that state types are static and immune to the influence of domestic politics and changes among the elites. The preferences of a state will also depend on changes in state leadership. Developmental states will tend to have coalitions comprised of elite politicians, business interests, the economic bureaucracy, and perhaps even the military, acting in concert to shape state preferences. In laissez faire states, economic coalitions and interests will themselves serve as the state elites. To the extent that there is a state, the preferences of the laissez faire state will tend towards maximizing economic benefit and profit.

¹²² This derives from the argument presented in Ibid, pp. 193-194.

¹²³ Japan, for instance, has used threats of harming the US-Japan security alliance when the US pushed Japan on economic issues. This occurred when Washington pressured Tokyo over Texas Instrument’s market access in 1966. Other examples were over market access in 1982, and US pressure over Japan to restrain semiconductor investment. Prestowitz suggests that the US, in contrast, valued the military alliance more. It was fearful that pressuring the Japanese too hard on economic issues would harm overall bilateral security ties. (Prestowitz, 1988, p. 52)

V. Propositions

The general hypotheses of how Asian developmental states craft their foreign policies should be particularly relevant to explaining and predicting their responses to China. Given China's tectonic economic rise, Asian developmental states might view China very differently from non-developmental states. Because of Asian developmental states' definition of security in economic terms, the threat that China poses may be less geopolitical and military, and more economic and technological. For example, a high degree of economic complementarity between the Asian developmental state's exports and those of China would mean that China would be seen as more friend than foe.

Asian developmental states will weigh tradeoffs between economic and military slices differently than laissez-faire states. In accordance with the logic of a domestic grand strategy hypothesis, I advance the following propositions concerning Asian state behavior under specific circumstances and varying according to state-type:

- (Proposition #1) Asian developmental states that are economically and technologically strong relative to China will likely align towards China in both political military and economic dimensions. These states will be prone to assume a greater degree of military and security risk in order to cultivate stronger economic ties. These states will also tend to mitigate disputes and avoid conflict with China.¹²⁴

The following conditions are indicators of an Asian state's economic and technological lead over China:

- Technological lead over China (as measured by research and development expenditure as percent of GDP, and number of researchers in R&D per million)

¹²⁴ Use of the term "align towards" does not imply that the Asian state is weak, as is often implied by the term bandwagoning.

- High degree of economic complementarity with China (that is, in terms of critical technology products, Chinese companies are not directly competing with those of the Asian state).¹²⁵
 - Greater GDP per capita relative to China
-
- (Proposition #2) Asian developmental states that are economically and technologically on par with China will likely align against China in both political military and economic dimensions. These states will be prone to more confrontational approaches in resolving disputes with China.

The following are indicators of an Asian state's economic and technological parity relative to China. These conditions will make the Asian state more likely to align against China in both political military and economic dimensions:

- Technological parity relative to China (as measured by research and development expenditure as percent of GDP, and number of researchers in R&D per million)
 - Competition with China in critical manufacturing and technological industries
 - Parity of GDP per capita relative to China
-
- (Proposition #3) Laissez-faire states, and states which are moving away from the Asian developmental state ideal-type, will be less inclined to assume greater degrees of military/security risk in exchange for economic and technological gains. Such states will also be less willing to adopt non-confrontational approaches to resolving disputes with China.

¹²⁵ Integration of China into the less technologically critical production chains of Asian states' industries is one indicator of complementarity.

RESEARCH DESIGN

Dependent Variable

For the purposes of this dissertation, I define the response of an Asian state to China as: all state-initiated foreign policies pertaining to political/military and economic matters. Because this is primarily a study of how states respond to China, I do not include variables such as public opinion or simple trade figures as part of the dependent variable. Political/military responses initiated by the Asian state would include: changes in military expenditures to the extent they are directed towards China; deployment of military forces or weapons systems designed to deter or defeat a potential Chinese threat (also referred to as “internal balancing”); statements from ministerial-level, or above, government officials pertaining to diplomatic and security matters; alliances with other states. Diplomatic and economic responses initiated by the Asian state would include: encouraging or restricting trade with China (eg.: policies to encourage investment in China; guidance from the state to industry concerning industrial policy, trade agreements with China); statements from ministerial-level (or above) government officials and leaders of industry associations¹²⁶ regarding China’s economic or technological status; development assistance to China; technical and scientific cooperation agreements. I also include an Asian state’s refusal to implement a particular policy out of fear of alienating China as part of the response. The policies of a state towards Taiwan are also included, since they serve as a proxy for the response of the state towards China; a favorable response towards Taiwan is seen as an unfavorable response towards China.

To code the dependent variable, policy responses of Asian states to China, I will borrow language which is rooted in the realist paradigm. In addition to the terminology outlined in the theory section pertaining to state behavior, my study will also employ terms that other scholars have coined around Walt’s terms. *Engagement* refers to “the use of non-coercive methods to ameliorate the non-status-quo elements of a rising major power’s behavior...[with the goal of ensuring]...that this growing

¹²⁶ Industry association representatives are arguable not part of the official state apparatus, and thus one could argue that I have contradicted myself by including statements from industrial associations as part of the dependent variable. However, I choose to include such statements because industry associations and government work in close consultation in Asian states. As such, statements from powerful industry associations can be quite representative of true state attitudes or policies.

power is used in ways that are consistent with peaceful change and global order.”¹²⁷ *Hedging* refers to actions taken by states to prevent undesirable outcomes. This can include a combination of engagement, balancing, and bandwagoning, either individually, or some combination thereof. While using terminology commonly associated with realism, I in no way intend to bias my analysis in favor of the realist paradigm. In other words, while a state’s foreign policy can be characterized in terms of alignment towards or away from China, the variables determining the response need not be limited to “realist” ones.

Though I consider both political/military and economic/commercial foreign policies to comprise part of the dependent variable, the nature of policymaking is such that different branches of government are often responsible for each of these areas of foreign policy. Furthermore, changes in a state’s foreign economic policy towards China may not necessarily track those in the political domain. Accordingly, it is necessary to account for variation in the dependent variable along two “dimensions”—political/military, and economic/commercial. I therefore propose that the dependent variable is best characterized on a two dimensional scale, as illustrated below.¹²⁸

¹²⁷ Johnston and Ross, 1999, p. xiv.

¹²⁸ Note that while I illustrate my dependent variable along a two-dimensional scale, it is completely different from that employed by Johnston and Ross (see above). I criticize their arrangement because “maximal” and “minimal” responses can be determinants of the dependent variable. As such, they conflate independent and dependent variables.

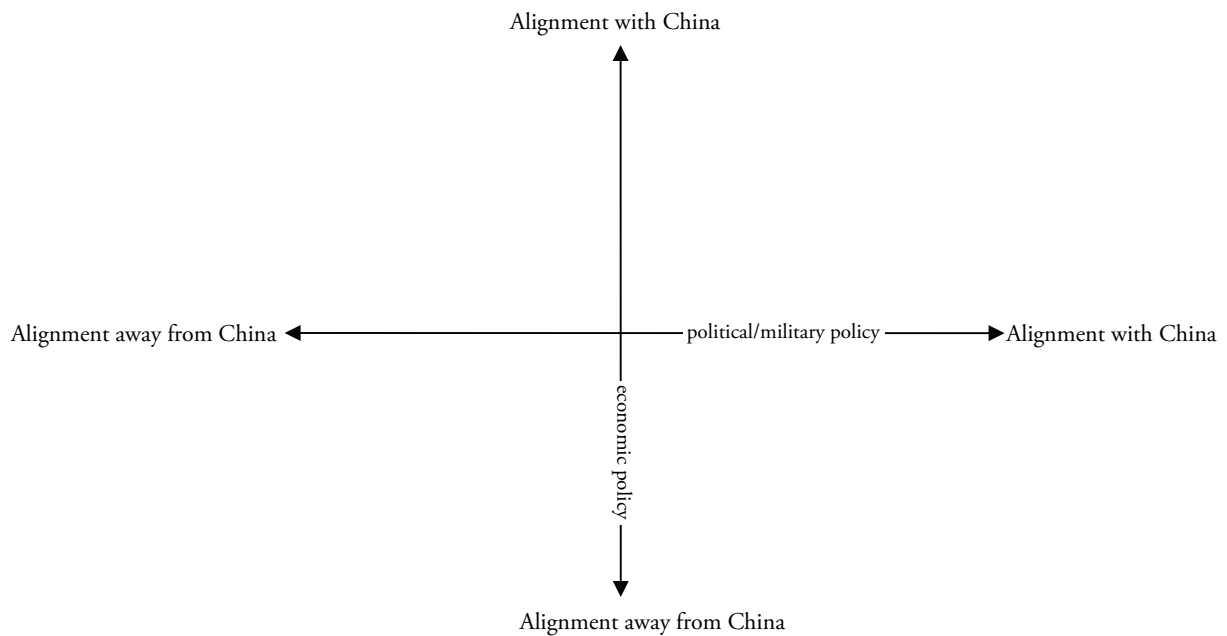


FIGURE 1.4

Independent Variables

Independent variables are factors which explain the dependent variable—the response to China’s rise. For organizational purposes, I classify the independent variables according to the two explanatory approaches in this dissertation: realist, and ideational-liberal. Realist independent variables would include: geographical factors, such as distance from China, separation from China by difficult geography, territorial size; China’s security and political posture towards the Asian state; US security policies towards the Asian state. Ideational-liberal independent variables would include: state-type (Asian developmental state or laissez-faire state); economic policies of China towards the Asian state; technological prowess relative to China; trade dependency on China; importance of China to Asian state’s manufacturing chain.

Confronting Competing Explanations

Two competing hypotheses for explaining varying responses to China by Asian states have been proposed: structural realism, and domestic grand strategy theory. This dissertation will utilize three country cases to probe these theories against various tests of covariation, both within each country over time, and across different countries. Often, more than one theory will be valid in explaining a particular response or policy stance; at other times, competing theories will make different predictions. To determine which theory offers the most explanatory power, the dissertation will assess which theory best explains change and variation most of the time.

Structural realist and domestic grand strategy explanations seek to explain the policy stances of Asian states vis-à-vis China through covariation between independent (causal or explanatory) and dependent variables; these variables are outlined in propositions one thru nine, above. In all of these cases, it is reasonable to question whether the independent variables are truly “independent,” exogenous variables which are not shaped by other factors or policies of the Asian states. If endogenous or other confounding factors are present, then these independent variables would instead become *intervening* variables.

I illustrate the problem of independent variables becoming intervening variables with some simple examples. Perhaps factors in the external environment are really responsible for effecting changes in how state elites define security. For instance, states where elites define security in economic terms might do so due to the absence of any external threat, or because political/military security is provided for by an ally. In this case, the ideational variable—economic definition of security—is not truly independent, as it is caused by the external factor, absence of threat. This situation would be in contrast to one where foreign policy is only caused by domestic factors, where the manner in which security is defined by elites is determined by domestic politics. In the latter, domestic factors would serve as the independent variable.

Are there analytical methods to distinguish between whether domestic factors serve as independent variables, or as intervening variables? In the situation where domestic factors are intervening variables, I would expect a chronological linkage between external events/factors and changes in domestic

variables. For example, changes in the level of threat faced by a state should lead to subsequent changes in the manner in which a state's elites define security. There should also be indications of the processes (steps) involved in these changing definitions of security: debates within the government, leadership changes, and/or state structural changes, *inter alia*. The preponderance of evidence should also suggest that these debates and changes are motivated by external security considerations.

In the situation where domestic factors serve as independent variables, changes in the external threat facing the state would not effect changes in the definitions of security by the elite. Or, if there do happen to be changes in external factors coincident with changes in domestic variables (such as changes in how security is defined by the state), the preponderance of evidence would indicate that only domestic considerations are causing the change. For instance, there should be evidence that domestic events, such as economic shocks, government corruption, and/or military coups, are leading to changing state structures and/or conceptions of security.

Methods

At its core, this dissertation will explore correlation and causality between each Asian states' independent and dependent variables. I will employ comparative case analysis along with process tracing to test my propositions against historical evidence from the cases of Japan, Korea and Thailand.¹²⁹ These methods will be used against the backdrop of IR theories in an attempt to explain the heterogeneous responses to China's rise.

The linkages between a state's independent and dependent variables would be explored through process tracing, whereby the actual causal mechanisms between independent and dependent variables are identified and probed. In process tracing, the decision processes by which independent variables

¹²⁹ Where the data will allow, process tracing examines the steps by which independent variables determine the dependent variable.

are translated into the dependent variable of a political response will be investigated in detail. In other words, process tracing attempts to peer into the “black box” of a states’ decision process.¹³⁰

Case Selection

The Asian region includes countries that vary greatly in terms of both independent and dependent variables, strengthening the explanatory power of the dissertation in answering the question of why Asian states are responding differently to China’s rise.¹³¹ I will examine three countries: Japan, Korea, and Thailand. These three countries were selected for four reasons. First, the three provide variation in the dependent variable. For example, Japan and Korea have had quite different political responses to China at same time periods. Their responses to China have also been different from those of Thailand at various cross-sections in time. Over time, the responses of the three have also changed: Seoul’s and Tokyo’s responses have changed significantly, while Thailand’s has changed less.

Second, the three provide variation on independent (explanatory) variables as well. In terms of realist variables, the three offer variation across relative power levels, geography, populations, and alliances with other powers. Trade levels, proportion of trade relative to GDP, and investment amounts of the three to China also vary across the states synchronically, and within each state over time. Thailand has undergone shifts in domestic grand strategy variables over time, while Korea and Japan have even greater variation.

Third, the three nations provide geographical diversity across Asia. As my dissertation will attempt to devise and confirm hypotheses of why Asian states (beyond the three I examine) are responding differently to China, it is important that my cases are representative of a broad cross-section of Asian countries.

¹³⁰ George and McKeown, 1985, p. 35.

¹³¹ According to case study methodology, cases should be selected with a high degree of variation in independent and/or dependent variables. For further information, see: Van Evera, 1997

Fourth, these countries happen to be important security partners of the US, meaning that insights and findings of my dissertation are particularly policy-relevant.

Research Data Measurement

How will independent and dependent variables be measured in order to facilitate comparisons within each country over time, and across countries? In light of the mix of qualitative and quantitative data, coding and ranking schemes are in order. The table below displays the proposed measures.

Dependent Variable	Measurement/Coding Scheme
Response to China	Coded heuristically, as shown in figure 5. Countries will also be rank-ordered according to the degree to which they align towards, or away from, China along political/military and economic policy dimensions. Indicators of the response would include: strategic cooperation agreements signed, FTAs signed, promoting/restricting trade with China, political statements and tone, policies towards Taiwan, alignment with other powers, high level visits, military exchanges/exercises, territorial disputes/resolutions, official development assistance
Independent Variables	Measurement/Coding Scheme
Relative power vis-à-vis China	-GDP per capita -Territorial size -Total population
China's policies to the Asian state	-Political statements -High level visits -Agreements or other cooperation initiated by China
Geography	-Mileage between capital of Asian state and Beijing, with distinction between overland and overwater mileage
Number of allies of Asian state	-Number of allies of Asian state, including type of ally (major power, secondary power)
Trade dependency on China	-Trade with China as a percentage of GDP -Trade with China as a percentage of total trade -degree to which China is integrated in Asian state's manufacturing/production chain

Financial attachment to China	-Foreign direct investment (FDI) to China as percentage of total outgoing FDI -China's FDI to Asian state as a percentage of that state's total inbound FDI
State Type	-Coded as: Asian development state, laissez-faire state -Measured by (illustrative): 1) political statements among elite pertaining to how security is defined; 2) presence/absence of industrial policy or strategic trade policy; 3) attitudes towards technological prowess or national competitiveness; 4) attitudes or views towards underdeveloped markets; 5) presence or absence of capital controls, including openness to foreign direct investment (FDI) inflows; 6) presence/absence of ties between government offices and industrial base supporting certain definitions of security among elite (for instance, symbiotic relations or partnerships between government elites and industries; 7) strength of economic or financial ministries relative to other ministries

TABLE 1.2

CHAPTER OUTLINE

This dissertation consists of five chapters. Chapters two to four each examine the historical record of Japan's, Korea's and Thailand's respective responses to China, and assess each state's responses against two international relations perspectives. Chapter five summarizes the results of my three cases, and offers conclusions and policy recommendations.

CHAPTER 2

JAPAN'S RESPONSE TO CHINA

Of the countries in this study, Japan has undergone the greatest transition by far in terms of both external security threats faced and domestic political changes defining the very fabric of its security policy and post WWII security doctrine. Of the three countries, Japan has also been the most active contributor to promoting China's economic development through financial assistance. In light of the changing post Cold War security environment and China's military and economic growth, how have Japan's security, diplomatic and economic policy stances towards this nation changed over time? What have been the primary drivers of such change? Have they mostly been external in nature—military and/or economic in modality? Or, have they been domestic?

This chapter describes and analyzes the response of Japan to China since 1992. It begins with a section describing the baselines of Japan's political/security, economic, and domestic conditions in the decades prior to 1992, followed by sections outlining Japan's military and security, political/diplomatic, and economic policy responses to China during three time periods: 1992 to 2001, 2001 to 2006 (the Koizumi years), and 2006 to 2008. The time periods were chosen because they demarcate significant shifts in Japan's policies vis-à-vis China. For each time period, Japan's response will be assessed against the two analytical frameworks discussed in the theoretical chapter: structural realism; and domestic grand strategy theory. Closing the chapter is a final section evaluating the two frameworks' ability to explain Japan's changing policies towards China over time.

BACKGROUND—JAPAN'S CHINA POLICY IN THE 1970s AND 1980s

To provide historical context for the changing response of Japan to China since the 1990s, this section highlights key features of Japan's historical relationship with China since the normalization of

relations between the two countries in 1972. In so doing, it also discusses Japan's defense and security posture, its trade and economic policies, and basic national conditions and elite concepts of security and state structure.

Political/Security Background

Japan's political and security outlook towards China was influenced by the post WWII constraints on its military capabilities. With its legacy as a defeated imperialist empire, modern Japan's security apparatus, doctrine and structure were circumscribed by the post WWII US military occupation of Japan, and the security environment of the Cold War. One central feature of US military occupation was the Japanese constitution written under the supervision of the US, in particular Article 9, commonly known as the "peace clause."¹³² Article 9, however, is not a strict regulation, and its *interpretation* has evolved over time, having consequences for security policy.¹³³

In spite of Article 9, Japan did possess a military deterrent against external threats—the Self Defense Forces (SDF). The SDF's limited capabilities were supplemented by the US security umbrella, which provided most of the external security assurances against the Soviet Union during the Cold War.¹³⁴ This arrangement of Japan being a "cheap rider" on the US defense train worked nicely during the Cold War since US and Japanese strategic interests converged readily over the common Soviet threat,

¹³² Article 9 stipulates that Japan forever renounces war as a sovereign right of the nation, bans collective self-defense, and prohibits the buildup or maintenance of armed forces. Boyd and Samuels, 2005 provides a good summary of Article 9 and its various interpretations.

¹³³ Two enduring interpretations are: 1) Japan has the right to force-levels sufficient to provide self defense, and; 2) the use of force was limited to self defense (Ibid, p. 8). Other principles that have been formulated as interpretive extensions of Article 9 include the ban on possession of nuclear weapons, and the limit of 1 percent of GNP on defense spending.

¹³⁴ In terms of military budgets, Japanese defense spending barely exceeded 1% of Japan's GDP, even during the height of the Cold War. When Japan's military budget did exceed the symbolic 1% of GDP limit under Prime Minister Nakasone Yasuhiro in the 1986, it was only by a marginal .007%. Due to different sources and methods of calculations, there are varying figures on the percentage of GDP spent on military expenditures in 1986. Pyle cites a figure of 1.004%. See Pyle, 2007, p. 273. The 1.007% figure is from Samuels. See Samuels 2007, p. 57.

especially during the late 1970s and 1980s, with the Japanese military expanding its capabilities under the encouragement of the US.¹³⁵

During the late 1970s and 1980s, Sino-US rapprochement, and the weakness of China generally, meant that Japanese security planners did not consider China to be a threat.¹³⁶ US President Nixon's rapprochement with China provided the necessary political backing for already increasing business ties between Japan and China to develop into full diplomatic relations.¹³⁷ In normalizing relations, the two states also agreed to sign a Treaty of Peace and Friendship—a task completed in 1978.¹³⁸

Throughout the 1970s and 1980s, Japan's relations with China took on a largely friendly tone which was formalized in the principles laid out by the 1978 Treaty of Peace and Friendship; the generous tone of this relationship became known as the "1972 System." Both Japan and China had similar interests during this era, with Japan wanting to encourage a stable and economically developed China which would gradually be incorporated into the international political and financial mainstream, and China desiring Japan's financial and technical assistance. In terms of political tone, Japanese leaders

¹³⁵ Hughes, 2004, p. 27. To counter the USSR threat and defend U.S. bases in Japan from Soviet airstrikes, the Air Self Defense Forces (ASDF) acquired E2-C early warning aircraft and F-15 fighters, specifically to counter the Soviet T-26 Backfire bomber. The Ground Self Defense Forces (GSDF) shifted its forces to Hokkaido and procured large numbers of main battle tanks, also to counter the Soviet threat. Likewise, the Maritime Self Defense Forces (MSDF) acquired the equipment necessary to assist the U.S. Navy operating from Japan. (Hughes, 2004, p. 27). Acquired in 1982, the E2-C Hawkeye were (and still are) based in the Northern Air Defense Sector, at Misawa Air Base in northern Japan (Jane's Information Group, 1998f). Some of the earlier squadrons of the advanced F-15J air superiority fighters were first activated in Chitose Air Base, on Hokkaido (Jane's Information Group, 2001c).

¹³⁶ In fact, the US, Japan and China were in loose partnership aimed at containing the USSR (Pyle, 2007, p. 331). However, at no point in time was the Japanese military committed to a collective security arrangement with the US, where the SDF would be subject to operations outside of Japan's own territory (Hughes, 2004, p. 29).

¹³⁷ In normalizing relations with China, Japan adhered to the "One China Policy" by recognizing the PRC as the "sole legal government of China" (Government of Japan and Government of The People's Republic of China, 1972). Accordingly, Japan also terminated its diplomatic ties with Taiwan, the Republic of China.

¹³⁸ The Treaty is notable in that its antihegemony clause implies that Japan and China were both concerned about the Soviet Threat. Article II of the Treaty reads "The contracting Parties declare that neither of them should seek hegemony in the Asia-Pacific region or in any other region and that each is opposed to efforts by any other country or group of countries to establish such hegemony." See Japan and the People's Republic of China, 1978.

also showed deference to Chinese interests because it was often easier to deal with Japan's past aggression against China through deference as opposed to facing the legacy of the past directly.¹³⁹

While Sino-Japanese relations were not frictionless in the 1980s, the notion that China did not pose a security threat in the eyes of Tokyo's elite reflected itself in the statements, visits and treaties between the two states. Partly because of the common Soviet threat, Chinese leaders were supportive of Japan's military buildup and the US-Japan alliance.¹⁴⁰ Hu Yaobang, General Secretary of the Chinese Communist Party, expressed confidence that Japan would never again invade China even if Japan expanded its military power.¹⁴¹ Capping-off Hu's 1983 visit to Japan, the two countries agreed to establish the Twenty-First Century Committee to promote peace and friendship,¹⁴² leading some to refer to the 1983-84 era as the best in the 2000-year history of Sino-Japanese relations.¹⁴³

Economics/Trade Background

Prior to normalization of Sino-Japanese relations, Tokyo had cultivated economic ties with Beijing in keeping with its longstanding view of China as integral to Japan's economic well being.¹⁴⁴ Due to Tokyo's alliance with Washington, and the fact that China was weak, Japan's leaders chose to see China as an economic opportunity rather than as a military threat. Throughout much of the postwar era, Tokyo's politico-diplomatic and economic policies were intertwined in order to achieve the levels of economic security desired by its leaders.

¹³⁹ Drifte, 2003, p. 18.

¹⁴⁰ Pillsbury, 2000, p.113, cited in Drifte, 2003, p. 24.

¹⁴¹ Drifte, 2003, p. 25.

¹⁴² Ibid.

¹⁴³ Tanaka Akihiko, *Nitchu kankei, 1945-1990*, Tokyo: Tokyo Daigaku Shuppankai, 1991, p. 132 (Tanaka, 1991), cited in Drifte, 2003, p. 25.

¹⁴⁴ The longstanding belief that Japan's prosperity could not be realized without trade with China was partial motivation for Imperial Japan's invasion of China during the Second World War. The view that Japan needed China to thrive economically carried itself into Japanese strategic thought after Japan's defeat, but with the added twist that in postwar Japan, leaders were convinced that a prosperous China would also become friendly to China and the US (Green and Self, 1996, p. 35).

Consistent with Japan's postwar goals of building its own economy, and of assisting the development of China's, Japan initiated bilateral trade (under the guise of 'private trade') in June of 1952; and by the early 1960s, Japan had become China's largest trading partner.¹⁴⁵ Increasing economic intimacy continued after US normalization of relations with the PRC, with Japan becoming the first non-communist country to extend aid to China in 1979.¹⁴⁶ Japanese aid to China, either directly or through multilateral agencies such as the Asian Development Bank (ADB), was made for two main reasons: as a *de facto* form of reparations for Imperial Japan's invasion of China, and for Tokyo's own economic benefit. Low-interest loans, grants, and technical-assistance comprised Japan's package of Official Development Assistance (ODA).¹⁴⁷

By 1988, Japan accounted for 36.3% of sovereign foreign assistance to China.¹⁴⁸ Bilateral trade had also reached significant levels in the late 1980s, with Tokyo's exports to Beijing hovering around 7% of its total exports, and imports from Beijing consisting of approximately 6% of total imports.¹⁴⁹

Domestic political conditions and background

Japan's relatively accommodative posture towards China can be explained by a variety of factors: the weakness of China relative to a menacing Soviet threat, the economic opportunity China presented, and the desire to make amends for Japan's brutal wartime occupation were already mentioned. However, the configuration of its domestic leadership system and other domestic conditions also played a role. I examine its baseline national conditions here.

¹⁴⁵ Ibid, p. 36.

¹⁴⁶ Ibid, p. 36.

¹⁴⁷ ODA reaped both political and economic benefits, with funds often directed towards industries or projects from which Japanese industries could reap benefits through exports. For example, closer commercial relations with China brought Japan benefits during the oil shocks of the 1970s and 1980s, when Japanese support for Chinese oil and coal projects during this period allowed Japan access to energy sources (Ibid, p. 41). Utilizing its dominant position in the ADB—the first international organization created and led by Tokyo—the Japanese were also able to funnel substantial sums of low-interest loans, grants, and technical assistance to China, amplifying its direct contributions.

¹⁴⁸ This percentage excludes multilateral sources, such as the World Bank or ADB. Delfs, 1991, p. 53.

¹⁴⁹ Calculated using data from Japan's Ministry of Finance and the Japan Tariff Association, CEIC Data, 2008b. Percentages based on trade figures denominated in JPY; trade with China includes Hong Kong.

For decades, the Japanese domestic political system had settled into an equilibrium where the bureaucracy, the dominant LDP, and business interests co-existed and forged an iron-triangle, wielding much influence in policymaking. Referred to as the “1955 System,” this structural equilibrium functioned alongside the belief—known as the Yoshida Doctrine—held by the elites in power that Japan would be most secure if it focused mostly on economic growth, leaving security matters to be taken care of by the alliance with the US.¹⁵⁰

In the decades prior to the 1990s, Japan’s domestic political environment exhibited three features salient to policymaking. These features, both structural and ideational, placed Japan firmly in the Asian developmental state category. The first was the influence of the bureaucracy over elected politicians in policymaking. The second was the power of agencies handling economic affairs over those of others within the bureaucracy, and the third was an overall definition of security in economic terms held by the elite.¹⁵¹ While these features are not characteristic of all Asian developmental states, they were both nurtured by and sustained a three-way equilibrium where pragmatic conservatives (also referred to as mainstream conservatives or “realists”) in the dominant Liberal Democratic Party (LDP), the economic ministries in the bureaucracy, and the powerful business interests formed an iron triangle which wielded much influence in policymaking. The end result—a symbiotic arrangement among business interests, bureaucrats and political elites—is a common and illustrative characteristic of Asian developmental states.¹⁵² While this formula was

¹⁵⁰ The Yoshida Doctrine describes an amalgam of the interpretation of Article 9 alongside other beliefs. The lasting interpretation of Article 9 was that Japan has a right to defensively appropriate force levels, and that the use of force was justified only under self defense. This was held alongside the belief that Japan’s national security interests would be best met by maintaining a minimal, strictly defensive military posture, leaving most security matters to be taken care of by the US under the mutual defense treaty, and focusing on economic growth. The Yoshida Doctrine, these principles guided Japanese security and foreign policy for decades. For more on the Yoshida Doctrine, see Samuels, 2007, p. 29-37; Katahara, 1996, p. 214-215.

¹⁵¹ Defining security in economic terms was a special characteristic of Japanese elite ideation.

¹⁵² It is important to note that the Japanese Asian Development State, though one that espoused capitalism, was not one that embraced free-markets to advance individual and corporate welfare. While businesses had a significant voice in the domestic political system, business interests were generally subservient to national economic interests. This produced some perverse incentives which ultimately facilitated Japan’s 1991 economic collapse, but was all justified with the aim of rebuilding Japan after WW II. For example, under the Japanese system, financial institutions were treated “more as providers of public financial services than competitive private sector intermediaries,” and weakest banks were not allowed to fail (Nakaso, 2001, p. 2).

successful in delivering enviable rates of economic growth with little social inequity, it led Japan to become an economic giant, but a political weakling.¹⁵³

Political Landscape

In the Japanese Asian developmental state, the political vertex of the iron triangle calcified into one position. Known as the “1955 System” because of the year in which a group of conservative parties formed the Liberal Democratic Party (LDP), and various wings of the socialists reunited to form the Japan Socialist Party (JSP),¹⁵⁴ this configuration eventually led to LDP dominance of Japanese politics from 1955 until the early 1990s. In particular, it was the domination of a tribe of politicians in the LDP, known as pragmatists, “mainstream conservatives,” or “mercantile realists,” which established the tone and direction of elite ideation and conceptions of national security.¹⁵⁵

Pragmatists within the LDP dominated the Japanese political landscape for nearly four decades because their policies were palatable to those of the two other persuasions, the revisionists and pacifists.¹⁵⁶

¹⁵³ Samuels, 2007, p. 63.

¹⁵⁴ Curtis, 1999, p. 27.

¹⁵⁵ The terms “pragmatists,” “mainstream conservatives,” and “mercantile realists” come from Richard Samuels. See Samuels, 2007.

¹⁵⁶ LDP dominance arose not because of a strongly unified LDP, but because of a split within the LDP. To understand how the intra-LDP split was able to play off of the JSP, I first describe the three macro-streams of political persuasions in postwar Japan. From the 1955 until the early 1990s, politicians’ views can be roughly categorized into three groups: revisionists, also referred to as “anti mainstream conservatives” or “nationalists;” pragmatists, also known as “mainstream conservatives,” or “mercantile realists;” and pacifists. Pacifists preferred Japan to remain an unarmed and neutral nation, and espoused an identity movement of postwar Japan being a “peace nation” (*heiwa kokka*). While politicians of all three stripes resided in the LDP, most pacifists were found in the primary opposition party, the Japan Socialist Party (JSP). Within the LDP, there existed a split between the pragmatists and revisionists. It was this split within the LDP that led often to collaboration between the pragmatists and pacifists over issues of national security and foreign policy.

Revisionists advocated unconstrained rearmament and greater security capabilities in Japan independent of the US alliance, and pushed for the revision of Article 9 of the Japanese Constitution—the article commonly referred to as the “peace clause” which renounces possession of and use of force in settling international disputes, and bans collective self-defense.

The intra-LDP split, along with the JSP as the nominal opposition party, fostered unlikely alliances among the three groups—revisionists, pragmatists and pacifists—that led to a remarkably stable “balance of power” among the three political persuasions that formed the 1955 System. Revisionists found common ground with pacifists over the alliance with the US, and US forces in Japan; both advocated an independent Japanese foreign policy. However, revisionists disagreed with pacifists over general foreign policy and views on

Pragmatists were a pillar of Japan's Asian developmental state apparatus; they generally focused on state-led economic development, believed in rearmament with constraints, and advocated a close alliance with the US.¹⁵⁷ Pragmatists united with pacifists over foreign and security policy, and China policy. Seeing economic growth and technological prowess as the means to national power, pragmatists and pacifists saw eye-to-eye on preserving Article 9 of the Constitution so that Japan could devote the minimal amount of resources to defense spending, and maximal amount to industrial policy and economic growth. Pragmatists, who had strong ties with industry, saw China as an economic opportunity, and also believed that through economic engagement, it would be possible to pull China away from the Soviet Union, and closer to Japan and the US.¹⁵⁸

China. While the former saw Imperial Japan's invasion of China as a noble attempt to liberate Asia from western domination, the latter shouldered tremendous guilt about its brutal occupation by the Imperial Army.

All three political groupings had ties to the Japanese industrial and economic sector. In the early postwar years, the revisionists were supported by industrial leaders of the prewar era, such as manufacturers which played a role in defense production. Bankers (and the Ministry of Finance) joined with the pragmatists to oppose government encouragement of the defense industry (Ibid, pp. 30-33). The pacifists found their support base with public sector unions (Curtis, 1988, p. 123).

Another reason for the longevity of the 1955 System was that the JSP's status as an opposition party was often in name only. On the surface, the JSP espoused principles opposing those of the LDP, and was committed to expelling the LDP from power. In reality, an underhand, symbiotic relationship evolved where the JSP leveraged its contacts within the LDP leadership to secure benefits for its supporters. In return, the LDP doled out favors to the JSP to keep it in check (Curtis, 1988, p. 123).

Japan's unique Single Non-Transferable Voting system coupled with multimember districts led to a fragmented party system, and was another contributory factor to the longevity of the LDP. Since a single party could run multiple candidates in a single district, it was possible for a candidate to win with as little as 15% of the vote, allowing small parties to survive (Curtis, 1999, p. 35). This not only perpetuated LDP influence, but also prolonged the survival of small parties, and prevented the emergence of a genuine opposition. For the dominant LDP, the multimember system had the effect of fragmenting the party, which accelerated fundraising in elections, causing a certain degree of corruption (Shinoda, 2003, p. 20). It also weakened the prime-minister's control over the cabinet, as each cabinet member was often appointed through a process of negotiation among various LDP factions (Shinoda, 2003, p. 20).

¹⁵⁷ These pragmatists embraced Article 9 of the Japanese Constitution—the article commonly referred to as the “peace clause” which renounces possession of and use of force in settling international disputes, and bans collective self-defense. For the pragmatists, Article 9 was particularly useful in deflecting US pressure to increase Japanese military capabilities and skirting entanglement in US Cold War strategy.

¹⁵⁸ Pacifists felt a sense of obligation to China because of Imperial Japan's brutal invasion of the nation, and hence did not oppose economic engagement of China. Neither the revisionists nor pacifists were opposed to economic and technological development, and GNP growth. While both pragmatists and revisionists agreed on the benefits of economic growth, they disagreed on the purposes of such growth. Pragmatists saw growth as a means to national power, while revisionists believed national power consisted of honor, removing US forces from Japan, and having an independent foreign policy.

Bureaucratic Landscape

The second vertex of the iron triangle, the dominance of the bureaucracy, was a vestige of the pre-war years, but re-configured itself to have an economic emphasis in the post-war era.¹⁵⁹ The economic bureaucracy grew because of Japan's urgent need to reconstruct its economy, and also because key postwar politicians were themselves former bureaucrats.¹⁶⁰ Prime Minister Yoshida Shigeru, himself a former bureaucrat in the Ministry of Foreign Affairs (MOFA), established the "bureaucratic leadership structure" (*kanryo shudo taisei*) which steered the trajectory of the Japanese political structure into the 1980s.¹⁶¹ As Yoshida was a mercantile realist who saw economic growth as a key to security and national power, he also ensured that it was the economic agencies in the Japanese bureaucracy that had power over the military agencies.¹⁶²

The bureaucrats also cast much influence over the LDP in the 1955 System, with former bureaucrats generally representing 30% of the LDP's Diet members, and up to 50% of cabinet members.¹⁶³ Furthermore, there was an uninterrupted stream of former bureaucrats serving as prime minister from 1957 to 1972,¹⁶⁴ leading to the bureaucracy's significant leverage over the cabinet (*kantei*).¹⁶⁵ The permeation of bureaucratic influence into politics led to a give-and-take process where

¹⁵⁹ Part of the reason for the economic leaning of the postwar bureaucratic apparatus was that the US command purged far fewer wartime bureaucrats in economic ministries than in the other ministries responsible for internal security. Johnson, 1982, p. 42.

¹⁶⁰ Ibid, p. 44-45.

¹⁶¹ Ibid, p. 45.

¹⁶² In postwar Japan, the Ministry of Trade and Industry (MITI), later renamed to the Ministry of Economy, Trade and Industry (METI), was the primary agency tasked with Japan's postwar industrial policy. In addition to MITI, the Ministry of Finance, the Ministry of Foreign Affairs (MOFA), and the Ministry of Justice were the most powerful and influential agencies within the bureaucratic hierarchy, as measured by their popularity among the most credentialed university graduates. Table 4 in Ibid, p. 61, shows that among graduates of the University of Tokyo Law School Classes of 1975 and 1976, arguably the most elite graduates of Japan, the top placements in the central government bureaucracy were in: Ministry of Finance, MITI, MOFA, and Ministry of Justice. Michael Green argues that among the four, the Ministry of Finance was the ultimate ministry, having unrivaled influence in domestic policy and foreign affairs (Green, 2003, p. 59).

¹⁶³ Pempel, 1986, p. 142, cited in Curtis, 1988, p. 91-92. Approximate percentages are for dates in the 1960s and early 1970s.

¹⁶⁴ Curtis, 1988, p. 91.

¹⁶⁵ Shinoda Tomohito argues that because appointees to the cabinet were often loyal to their faction leaders in the LDP, the prime minister was limited in his ability to deliver unified or assertive policies. Frequent cabinet reshuffling, and a Cabinet Law which did not clearly define the authority of the prime minister or Cabinet Secretariat in initiating policy, strengthened the influence of bureaucrats. See Shinoda, 2003, p. 21.

bureaucratic influence, though strong, also took into account LDP interests. It was not in the interests of the bureaucracy to alienate the LDP, or vice-versa, because the bureaucrats knew that the Diet had ultimate, constitutionally-granted authority to regulate the bureaucracy, while the LDP had little policy expertise of its own and had to rely on the bureaucracy.¹⁶⁶

Another bureaucratic institution, the Cabinet Legislation Bureau (CLB), also played a major role in Japan's security policy formation. According to Samuels, the CLB provided a disproportionate and influential voice in interpreting Article 9 of the Japanese Constitution.¹⁶⁷ The Director General of the CLB often answered Diet interpellations on behalf of Cabinet ministers.¹⁶⁸ For nearly 50 years, the CLB served as an important instrument in Japanese policy formation in its alliance with LDP pragmatists.¹⁶⁹

Business Landscape

Together with the politicians and bureaucrats, the business community formed an integral part of Japan's Developmental State apparatus. Two major factors contributed to the significant influence of business groups in postwar Japan: historical precedence, and the post-war emphasis on delivering economic growth. The Imperial Japanese regime actively promoted cartelization of family-run businesses (*zaibatsu*) under the logic of minimizing the disruptive effects of competition.¹⁷⁰ While the US occupation disbanded the *zaibatsu* during the postwar era, the various businesses re-grouped to form corporate groupings (*keiretsu*) that still exist.¹⁷¹ Coupled with the postwar emphasis on delivering economic growth enshrined by the LDP pragmatists and bureaucrats, the *keiretsu* and other major Japanese business associations were seen as partners in advancing national wealth.¹⁷²

¹⁶⁶ Curtis, 1988, p. 108.

¹⁶⁷ Samuels, 2007, p. 49, states "There is no major security policy issue on which the CLB has not ruled." See also p. 50 and 51 on the CLB.

¹⁶⁸ Ibid, p. 76.

¹⁶⁹ Ibid, p. 51.

¹⁷⁰ Wanner, 2000.

¹⁷¹ Ibid.

¹⁷² Ibid.

Politicians, bureaucrats and businesses functioned together to maximize each others interests. In the end, the national economy grew at tremendous rates, while businesses profited as well. The *keiretsu* and other businesses maintained their alliance with the LDP and bureaucrats through trade and industry associations which represented them, and because of various structural traditions.¹⁷³

Interaction of Domestic Ideation and Structure

Elite views of defining security in economic terms were embraced by the pragmatists, and found longevity in the symbiotic relationship among the bureaucracy, LDP and business groups. Cooperation between the bureaucracy and the LDP profoundly impacted the legislative process, and led to a “stickiness” in the political system which perpetuated views of security and power that were grounded in economic and technological advancement.¹⁷⁴

Business and bureaucratic interests were also closely aligned during the postwar era because of the *amakudari* tradition, whereby senior civil servants would retire from government service in the mid-fifties and land leadership positions at large corporations or trade associations. These personnel linkages between the regulator and the regulated, and the frequent mutual sharing of information between businesses and bureaucrats to develop joint policy positions, led to fused interests between the bureaucrats and businesses.¹⁷⁵

¹⁷³ Four businesses organizations played a major role in influencing Japanese policy: Keidanren (Japan Federation of Economic Organizations); Nikkeiren (Japan Federation of Employer’s Associations); Keizai Doyukai (Japan Association of Corporate Executives); and the Japan Chamber of Commerce and Industry. The Keidanren was the most influential and prestigious of trade associations, and its meetings were often attended by politicians and bureaucrats (Ibid). The Keidanren also served as a major bundler of funds from its constituent associations and corporate members for huge campaign contributions (Curtis, 1999, p. 52).

¹⁷⁴ Cooperation involved a symbiotic relationship where the bureaucrats provided the knowledge, but the politicians implemented the laws. Most bills passed in the Diet were submitted by the cabinet, which were originated and drafted exclusively within the ministries (Johnson, 1982, p. 47). For example, in 1965 and 1970, 90% of Diet bills passed were submitted by the cabinet, whereas only 10% of bills passed were originated by individual Diet members (Pempel, 1974, p. 650, Table 1).

Deliberation on laws took place in ministry-dominated “deliberation councils” so that by the time they reached the Diet floor, approval was likely; the Diet effectively ratifies decisions already made elsewhere (Johnson, 1982, p. 47-50). During interpellations on the Diet floor, where ministers were supposed to testify when answering questions from opposition parties, bureaucrats often stood-in for their ministers (Shinoda, 2003, p. 25).

¹⁷⁵ Pempel, 2000, p. 75.

Japan's Asian developmental state structure delivered remarkable economic results and propelled the country to the forefront of economic influence during the 1980s. By prioritizing economic strength and perceiving external threats through lenses that stressed such advantage, Japan had achieved its goal of becoming a first-rate economic power, but was still a third-rate political power at the time. Prime Minister Nakasone Yasuhiro saw the need to reform Japan's domestic political system so that it could participate as an equal player with world powers such as the US. Instead of being junior partner with the US, as was prescribed under the Yoshida Doctrine, Nakasone envisioned a Japan that would be allied with the US on the basis of equality.¹⁷⁶ Among various efforts to reform the inefficiencies of Japan's domestic political regime, Nakasone attempted to sidestep the bureaucracy and the LDP mainstream conservatives by reorganizing the cabinet secretariat so that the prime minister's office (*kantei*) would have institutional mechanisms to support his agenda.¹⁷⁷ Due to the overwhelming inertia of the existing political system, Nakasone's attempts at reform of the 1955 system did not bring lasting change.¹⁷⁸

JAPAN'S RESPONSE TO CHINA – 1992 TO 2001

Overview

The 1990s were turbulent times both outside and inside Japan, with both types of forces having short and long-term effects on Japan's overall security policies, and its policy stances vis-à-vis China. The end of the Cold War in 1991 and the implosion of the Japanese economy—ending a two-decade streak of rapid growth—had far-reaching consequences for both its domestic political structure and foreign policies. External geopolitical shifts—the disappearance of the Soviet threat, instability on the Korean Peninsula, and China's growing military power and use of force—caused Japan to grope for a new direction in its security policy towards China, the region, and the US. Domestically, the severe recession gave fuel to politicians who had long addressed the need for reforming the inefficient

¹⁷⁶ Pyle, 2007, p. 270. Prime Minister Nakasone Yasuhiro was the first anti-mainstream conservative to lead Japan since prime minister Kishi Nobosuke in the 1950s.

¹⁷⁷ Shinoda, 2007, pp. 11 and 21. Until July 1986, the *kantei* did not have institutional mechanisms to support the prime minister's agenda.

¹⁷⁸ Pyle, 2007, pp. 270-276.

political system. Unforeseen external and domestic shocks later in the decade—in the form of multiple North Korean and Taiwan Straits security crises and domestic natural disasters and terrorism—exposed critical flaws in Japan’s bureaucracy and overall governance system, spurring changes to strengthen executive powers and giving voice to politicians who advocated a stronger and more assertive Japan in the international arena.

While the 1989 Tiananmen/Beijing massacre only briefly halted economic and commercial engagement of China, the tragedy marked the beginning of the end of the so-called “golden age” in Sino-Japanese relations, when irritants in the bilateral relationship were largely swept aside by Japan’s deference to China because of a desire to make amends for its brutal occupation of China during WWII, and a focus on the larger goal of nurturing China as an economic opportunity. Tokyo’s diplomatic and political stances vis-à-vis Beijing in the early to mid 1990s remained roughly the same as those in the late 1980s, but in the latter half of the 1990s, its security and military response to China began to diverge more from its diplomatic stances. None of these policy shifts vis-à-vis China has been sudden, and indicators of these shifts were more subtle in the early 1990s than in the 2000s. Indeed, the consensus among Tokyo’s elites for most of the 1990s stressed maintaining friendly ties with the PRC as essential, with a predominantly economic-oriented strategy towards the PRC seen as in Japan’s best interests.¹⁷⁹

1. Japan’s Political and Security Response to China: 1992-2001

Japan’s security and political policy stances towards China retained the generally cordial tone of such policies of the 1980s, but began to shift in response to China’s growing military rise towards the end of the 1990s. Tokyo’s security and military response can be measured by evolving military deployments and acquisitions, government statements, and external political alliances. Due to Japan’s financial crisis which began in 1991, growth in military expenditures was minimal. Prior to the 1990s, Japan’s defense spending grew at an average rate of 6% per year during the late 1970s and 1980s,¹⁸⁰ paralleling Japan’s tremendous rate of economic growth, but (with the symbolic exception

¹⁷⁹ Green and Self, 1996, p. 36.

¹⁸⁰ Ibid, p. 38.

of 1986) never exceeding the 1% threshold of GDP. However, the average annual growth rate of Japanese defense spending between 1990 and 2000 was only 1.04%.¹⁸¹(See Figure below, 2.1, 2.2)

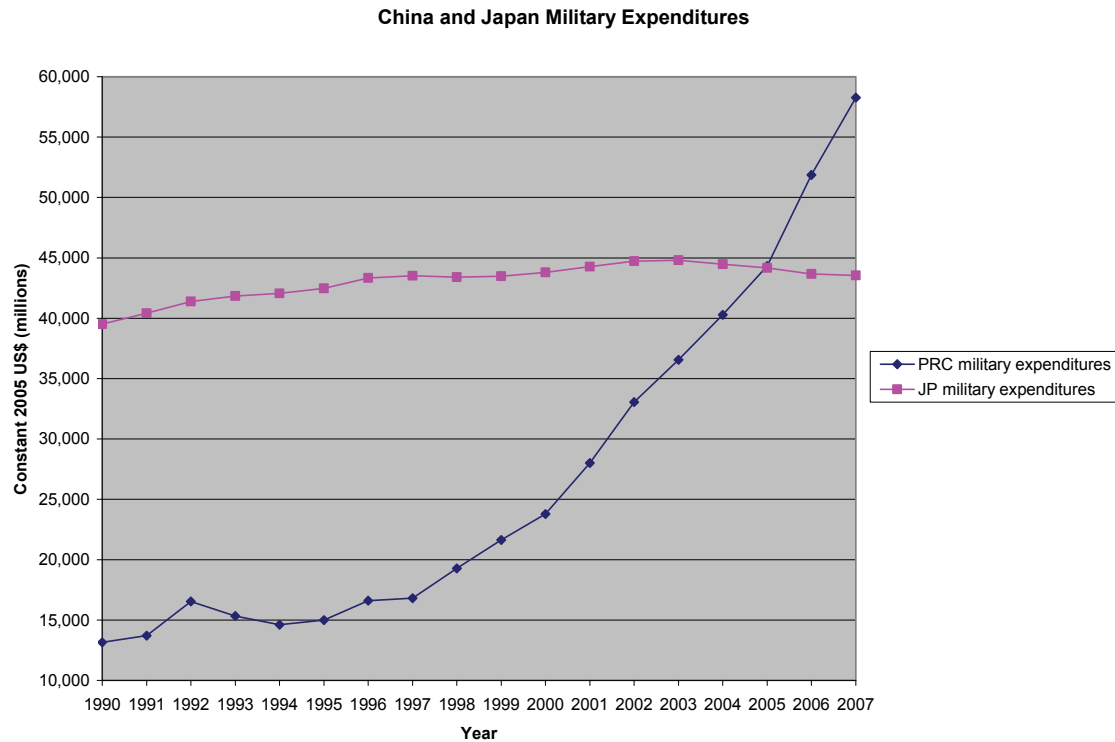


FIGURE 2.1
Source: SIPRI Military Expenditure Database

¹⁸¹ Author's calculations based on information from the SIPRI military expenditure database, Japan, using figures denominated in 2005 constant dollars. Dates are inclusive. Stockholm International Peace Research Institute (SIPRI), 2009

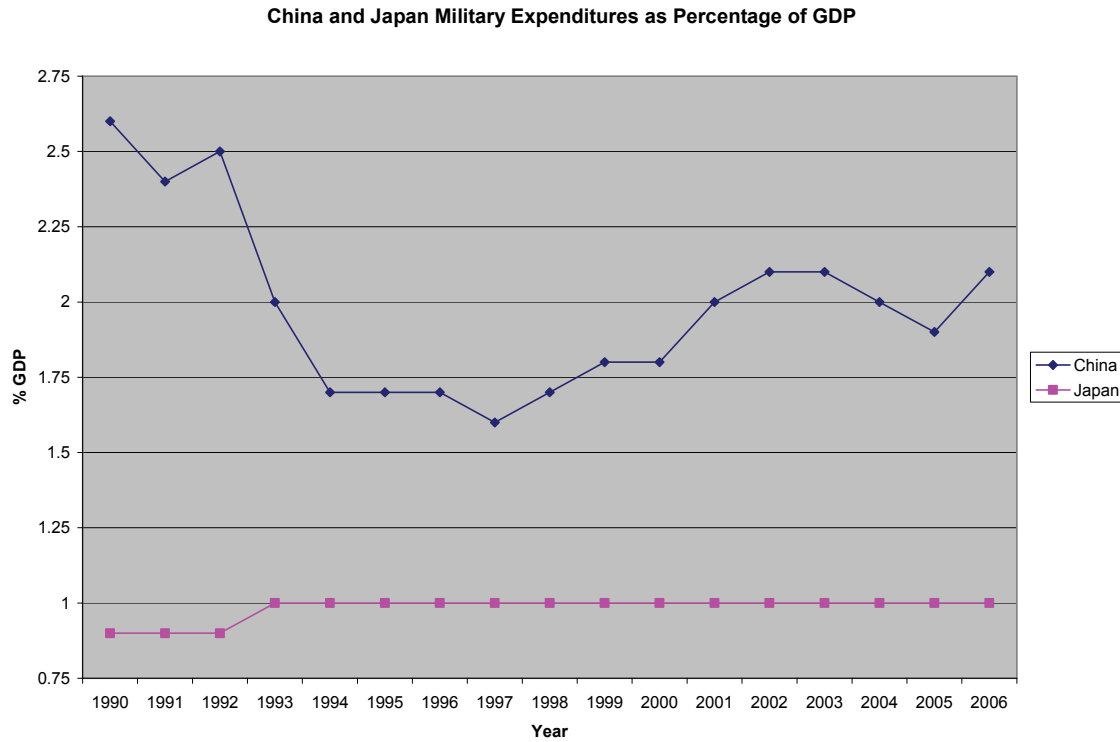


FIGURE 2.2
Source: SIPRI Military Expenditure Database

Language of Official Japanese Documents Pertaining to Defense and Security

Official defense statements generally indicating levels of Chinese threat generally tracked with China's increasing militarization, but were notably restrained during the early 1990s.¹⁸² For example, despite the PLA's growing military budgets and its efforts at military modernization, Japan's 1993 Defense White Paper, *Defense of Japan*, did not emphasize any immediate threat from such efforts (in

¹⁸² Tokyo's leaders were cognizant of China's military buildup that had begun in the 1980s, but adopted a temperate and reserved tone in official statements indicating the existence of China's increasing capabilities, while preparing for China related contingencies through its military procurements. For example, the 1992 Japanese Defense Agency Defense White Paper, *Defense of Japan*, mentions that China's defense budget has risen for the third consecutive year, and simply adds that revenues from its arms exports are re-invested into defense industries (Japan Defense Agency, 1992). In the wake of shifting external threats, the 1993 Defense of Japan stressed (for the first time) the need to maintain national defense-industrial capability (Ebata, 1993b).

contrast to expressed concerns about Russia's efforts).¹⁸³ Subsequent statements indicated concern that China's rising capabilities might actually threaten Japan, but were oblique in tone. Without explicitly naming China, the FY1996 National Defense Program Outlines (NDPO) expresses concerns about China's growing nuclear arsenals and military capabilities.¹⁸⁴ It also portends a tighter security embrace of the US, stipulating that the alliance would be upgraded in the event of a crisis arising in "areas around Japan."¹⁸⁵ However, the final language is deliberately oblique as to specifying what "areas around Japan" circumscribes, in large part to avoid offending China.¹⁸⁶

As China increased its military spending and activities during the latter half of the decade, official Japanese documents pertaining to security matters indicated increasing degrees of concern with the changing external security situation, and China's increasing militarization and provocative activities. Language in Japan's *Defense of Japan* was more direct in expressing concerns about China's military rise in the latter half of the 1990s than in the first.¹⁸⁷ In light of the 1996 Taiwan Straits crisis and

¹⁸³ The 1993 White Paper states "For the time being, China is giving the highest priority to the development of its economy and, thus, ... the modernization of Chinese defense will proceed moderately," as cited in Ebata, 1993b. Despite the realignments and reduction of the Russian threat, the early 1990s witnessed lingering concerns over the *modernization* of Russian Far East Forces—though apparently non-operational since the fall of the Soviet Union, V/STOL aircraft carriers were still on station. Indeed, Japan's 1993 Defense White Paper did stress concern over modernization of Russia's Far Eastern Forces. It did, however, take notice of the PRC's 1992 Territorial Waters Act, stipulating that most islands in the South and East China Seas—including the Diaoyu/Senkaku Islands—belong to the PRC.

¹⁸⁴ The precise language from the tentative unofficial translation reads: "...there still remain large-scale military capabilities including nuclear arsenals and many countries in the region are expanding or modernizing their military capabilities mainly against the background of their economic development." See Japan Defense Agency, 1995a and Samuels, 2007, p. 68.

¹⁸⁵ Interpretation comes from Samuels, 2007, p. 68.

¹⁸⁶ Ibid, p. 68. Unofficial translation of the NDPO language reads: "Should a situation arise in the areas surrounding Japan, which will have an important influence on national peace and security, take appropriate response in accordance with the Constitution and relevant laws and regulations, for example, by properly supporting the United Nations activities when needed, and by ensuring the smooth and effective implementation of the Japan-U.S. security arrangements." (Japan Defense Agency, 1995a.) To implement the guidelines in the FY1996 NDPO, the FY1996 Mid-Term Defense Build-up Plan (MTDP), approved by the Security Council December 1995, specified the need to reorganize and restructure all branches of Japan's SDF.

The FY1996 MTDP also cited the need to create a new central intelligence organization, and to reach a conclusion regarding ballistic missile defense (Japan Defense Agency, 1995b). Due to the tightening financial situation, the MTDP focused on qualitative improvements to Japan's forces, stating plans to implement test programs for modernizing/upgrading F-15J fighters and P-3C anti-submarine patrol aircraft, further acquiring maritime patrol helicopters (SH-60J), and acquiring systems to aid in countering airborne and amphibious landing invasions.

¹⁸⁷ For example, the 1996 Defense White Paper was unprecedented in its directness about China's military spending, stating: "But the amount of money China is actually spending on military purposes is considered to

China's "double-digit per annum growth" in funding three fighter programs—acquisition of the Su-27, development of the FC-1 light combat jet and J-10 multi-role fourth generation fighter¹⁸⁸—the JDA, for the first time in 1997, directly criticized the opaqueness of China defense budget, noting: "We hope that China will further improve transparency of its defense policy, military strength and other things."¹⁸⁹ The JDA's 2000 Defense White Paper for the first time clearly stated that Japan was within the range of intermediate-range ballistic missiles. And press commentary in both Japan and China noted the White Paper's increased focus on China.¹⁹⁰

Military Deployments and "internal balancing"

Japan's force deployments reflected concern over the rising Chinese and North Korean threats.¹⁹¹ The changing nature of threats and budget constraints spurred the SDF to stress qualitative improvements and mobility, as evidenced by the GSDF's creation of "numerous" helicopter units designed for rapid-response.¹⁹² To deter anticipated future threats analogous to the ones Japan had already encountered during this time frame—incursions of Japan's air and maritime space, threats

be larger than the announced defense spending," and stressing (as had been done so in the past) the need to continue to watch Chinese action (Japan Defense Agency, 1996, p. 45).

¹⁸⁸ Cook, 1996.

¹⁸⁹ Japan Defense Agency, 1997, p. 52.

¹⁹⁰ Przystup, 2000, p. 92. Przystup notes that "the previous White Paper had lacked the country specific designation, preferring the ambiguous reference to Asia as being within China's missile range." The language in the 2000 Defense of Japan reads: "In terms of intermediate-range ballistic missiles, China possesses a total of 70 intermediate-range missiles whose range takes in the Asian region, including Japan..." See Japan Defense Agency, 2000, p. 47.

¹⁹¹ After the end of the cold war, Japan began to both redistribute and reconfigure its forces in response to shifting external threats and tightening military budgets brought about by a sagging economy. The end of the Soviet threat, in the form of rapid erosion of Russia's Far Eastern forces, led the SDF to reconsider its "northern oriented strategy," resulting in the reduction of Ground Self Defense Force (GSDF) assets in Hokkaido (Japan's northernmost island), and a redistribution of forces to areas near Tokyo to protect against instability on the Korean Peninsula (Ebata, 1993b, p. 870).

¹⁹² Northern-Oriented Strategy Reconsidered, 「北方重視 略を転換 陸自、冷後」で基本方針 [Hoppo jushi senryaku o tenkan Rikuji, Reisengo de kihon hoshin], Asahi Shimbun, Morning ed., May 14, 1994. The author thanks Rachel Swanger for translation assistance. Originally cited in Heginbotham and Samuels, 1998, p. 183. Heginbotham and Samuels mention the shifting of forces southward. For example, Heginbotham and Samuels note that Japan's Air Self Defense Force (ASDF) redeployed its assets by shifting P-3C antisubmarine aircraft from northern bases in Hokkaido and Aomori southward to Okinawa. Such realignments also coincided with plans to reduce bases by 40 (from 159) in the 1990s.

from North Korean ballistic missiles, and threats to Japan's offshore islands—the JDA authorized further acquisitions of advanced equipment such as the Kongo class (Aegis type) destroyers, Oyashio class attack submarines, E-767 AWACS aircraft, and the 8,900 ton Oosumi class landing ship.¹⁹³ To address Japan's weakness in defending its maritime airspace, two Takanami class guided missile helicopter destroyers, with more advanced air defense systems, were authorized in FY1998.¹⁹⁴

External Security Alliances

Japan responded to China's threatening behavior exhibited during its 1995 and 1996 Taiwan straits military exercises by strengthening its alliance with the US. The April 1996 Japan-US Joint Declaration on Security, signed by Prime Minister Hashimoto and President Clinton, was unprecedented in US-Japan security declarations in that it singled out the importance of China in playing a constructive role in regional peace and security.¹⁹⁵ Yet alignment with the US was restrained out of consideration for China's sensitivities over a remilitarized Japan. For example, the "1997 Guidelines of Japan-US Defense Cooperation" was issued to create the basis for US-Japan cooperation "under normal circumstances, in case of an armed attack against Japan, and in situations in areas surrounding Japan."¹⁹⁶ However, the language was deliberately vague as to what "areas surrounding Japan" delineated.¹⁹⁷

¹⁹³ Commissioning of advanced Oyashio class SSK antisubmarine attack submarines began in 1998 at a rate of one per year. Fitted with anechoic tiles, the Oyashio class is designed to operate more quietly than previous submarines (Jane's Information Group, 2008i). The first E-767 AWACS aircraft was delivered to the ASDF in 1998, and was based in central Japan at Hamamatsu Kita air base (Jane's Information Group, 1998a). Hamamatsu Kita air base is located between Kobe and Tokyo, on the southern coast of central Japan. In 1998, the first 8,900 ton Oosumi class landing ship, capable of accommodating two transport helicopters and two hovercraft (landing craft air cushion, or LCAC) was commissioned in the southern port of Kure (Jane's Information Group, 2008j).

¹⁹⁴ On the Takanami class, see Jane's Information Group, 2008k. Maritime air defense was a weakness of the SDF, and the Takanami class was designed to address this weakness.

¹⁹⁵ Mochizuki, 2007a, p. 751. The language of the Joint Declaration, as provided by the Ministry of Foreign Affairs of Japan, reads: "They [Hashimoto and Clinton] emphasized that it is extremely important for the stability and prosperity of the region that China play a positive and constructive role, and, in this context, stressed the interest of both countries in furthering cooperation with China." (Ministry of Foreign Affairs, 1996.)

¹⁹⁶ Ministry of Foreign Affairs, 1997.

¹⁹⁷ The Guidelines state that the concept, "situations in areas surrounding Japan, is not geographical but situational" (Ibid). Immediately following are these sentences: "The two Governments will make every effort,

Japan's agreement to jointly develop ballistic missile defense (BMD) capabilities with the US, inked in 1999, was justified in light of North Korea's firing of a missile over Honshu. However, it was also a means of deterring China's ballistic missile threats to Japan's southern islands in Okinawa Prefecture.

While not an explicit response to China, Japan's cultivation of ties with other Asian democracies (and potential geopolitical counterweights to China) could serve as indicators of unease with China. Japan's strategic relationship with India is noteworthy for the manner in which it proceeded, with political security agendas preceding economic and commercial ones.¹⁹⁸ Indian Defense Minister George Fernandes' visit to Japan in January 2000, which initiated an annual bilateral defense and security dialogue, served as the foundation for further cooperation.¹⁹⁹ This was followed by Prime Minister Mori Yoshiro's visit to India in August of the same year, making him the first Japanese prime minister to visit India in a decade.²⁰⁰ Relations between Tokyo and New Delhi were to accelerate during the Koizumi years.

While the 1990s opened a new era where Japan's military redeployments and official security statements suggested that it began to see China as a potential military threat, the mantra of official Japanese diplomatic policy vis-à-vis China was still one of economic engagement. As a result, Tokyo's diplomatic policies were often asynchronous with its security policies vis-à-vis Beijing. Such diplomacy, which often saw blurred lines between strictly commercial and politico-diplomatic stances, was motivated by three beliefs among Japan's leaders: that economic growth in China would directly benefit Japan's economy, that Japan's ability to influence the trajectory of China's political

including diplomatic efforts, to prevent such situations from occurring. When the two Governments reach a common assessment of the state of each situation, they will effectively coordinate their activities. In responding to such situations, measures taken may differ depending on circumstances." Such diplomatic equivocation resulted in language that was unclear under what circumstances the alliance would come into play, and against which parties the alliance was intended. The primary motivation for such language appeared to be Japan's reluctance to openly state that it would provide support for US forces in the event of a Chinese attack on Taiwan, and clearly revealed Japan's fear of aggravating China. See Heginbotham and Samuels, 1998, p. 186 for interpretation on excluding Taiwan. See Johnstone, 1998, p. 1084, regarding fear of aggravating China.

¹⁹⁸ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 42.

¹⁹⁹ Ibid, p. 42.

²⁰⁰ Ibid, p. 42.

development and security behavior would be enhanced through economic engagement, and that Japan was somewhat obligated to make amends for its wartime brutalities through Official Development Assistance (ODA).

The decade saw numerous efforts on behalf of the Japanese government to encourage trade and investment in China, and to integrate China into the international economic system—Tokyo was one of the strongest advocates of Beijing’s early accession to the World Trade Organization (WTO). However, Japan also began to expand the depth and breadth of its relations with other powers in the region, diversifying its comprehensive ties to include states such as India, Australia, and nations in Southeast Asia.

2. Japan’s Economic Response to China: 1992-2001

No other mode of Japanese diplomacy underscored the importance of nurturing China’s economy as ODA. The 1989 Tiananmen/Beijing crackdown may have diminished positive views of China in Japan, but only briefly halted Tokyo’s economic and commercial engagement of Beijing. Aside from a sense of obligation to make amends for Imperial Japan’s wrongdoings, Japan’s policy elite still viewed China as an economic opportunity, and resumed economic aid and other policies to encourage Japanese businesses to trade with and invest in the PRC. To accomplish these objectives, the Japanese government utilized not only various funding agencies, but also leveraged its influence in and leadership of multilateral institutions, such as the Asian Development Bank (ADB).

Throughout the 1992 to 2001 period, Japanese government sponsored loans and support to China grew. While such assistance did bring about political goodwill between the two countries, it was also designed to stimulate Japan’s own economy through exports. Preferential loans and aid to facilitate Chinese importation of Japanese products and services were of particular help to large Japanese trading companies competing in China.²⁰¹ Furthermore, many aid-supported projects were directed

²⁰¹ do Rosario, 1991, p. 55.

to areas where Japanese investments were already located—such as Dalian in the northeast.²⁰²

Through the coordination of MITI, Japan also committed to funding 70% of an industrial park in Dalian.²⁰³

Official efforts to encourage trade with and development in China included export credit agency funding. In 1992, the Export-Import Bank of Japan (JEXIM) signed an agreement with the Bank of China for a five year, ¥700 bil (\$5 bil in 1992) loan package for 27 petroleum and coal projects, representing the largest package of resource loans to China.²⁰⁴ In December 1994, Japan agreed to provide ¥580 billion (\$4.8 billion) in loans to China for FY1996-98.²⁰⁵

Despite changes in China's security posture and its nuclear weapons tests in 1995 and missile test firings in the Taiwan Straits in 1995 and 1996, the Japanese government only suspended a modest amount of grant assistance in protest, and only until 1997, when it resumed grants to China.²⁰⁶

Assistance in the form of loans, however, continued unabated.²⁰⁷ Furthermore, the Japanese government also provided substantial financial support for PRC energy exploration.²⁰⁸ ODA loans increased significantly in 1998,²⁰⁹ with Japanese aid to China focused on environmental issues.²¹⁰

²⁰² Capitalizing on extant Japanese business presence in the Dalian area, the Ministry of International Trade and Industry (MITI) spearheaded further Japanese investment in the area as part of plans to create a Sea of Japan economic zone (Kyodo News, 1991).

²⁰³ Part of the funding came from the government-backed Overseas Economic Cooperation Fund (OECF), with another share coming from a consortium of Japanese companies. See Kyodo News, 1992. By 1997, the government of Japan had pumped over US \$60 million in foreign aid loans and grants to develop Dalian. See Sullivan, 1997.

²⁰⁴ Johnstone, 1998, p. 1075.

²⁰⁵ Ibid, p. 1073.

²⁰⁶ The FY1997 portion of Japan's ODA commitment totaled ¥203 (US \$1.7 billion), and was announced during Prime Minister Hashimoto's September visit to China (Ibid, p. 1073).

²⁰⁷ For example, China still received about \$3.7 billion in JEXIM funding in 1995—making it the largest recipient of this program (Mochizuki, 2007a, p. 750). JEXIM financing to China also continued to grow despite PRC missile test firings in the Taiwan Straits in 1995 and 1996. In 1996, the JEXIM provided ¥243 billion (US \$2 billion) in 'semi-commercial' financing to support trade and investment in China during FY1996, which was to be followed by another agreement for JEXIM untied loans to the PRC for bridge, airport and road projects in Dec 1997 (Johnstone, 1998, p. 1073).

²⁰⁸ Mochizuki, 2007a, p. 750. JEXIM also provided 60% of the export loan for Qinshan nuclear project in 1997, enabling China's Qinshan Nuclear Power Company to purchase two generating units from Hitachi and Itochu (International Trade Finance, 1997).

²⁰⁹ Heginbotham and Samuels, 1998, p. 187.

As part of Japan's larger strategy of integrating China into the world economy, it was particularly vocal on the importance of China's expeditious accession to the WTO.²¹¹ Tokyo had concluded agreements with Beijing on goods and services, required for WTO accession, in September 1997 and July 1999, respectively.

Tokyo also used its leadership of the Asian Development Bank (ADB) to steer aid and technical expertise towards China.²¹² During the 1990s, the ADB contributed to China's economic development and trade capacity through a variety of vehicles: low-interest loans with generous repayment terms, grants, and through the Japan Special Fund (JSF), established (and funded) by Japan in 1988 to provide grants for technical assistance projects. As seen in Figure 2.4, ADB and JSF monies directed to Beijing in the 1990s comprised a significant share of total ADB and JSF monies. Throughout the decade, China was often the number one or two recipient of ADB assistance.²¹³

The results of Tokyo's economic diplomacy vis-à-vis China are reflected in the rapidly growing levels of trade and investment between the two states. In terms of trade, Japanese exports to China in 2000 were 124% higher than in 1990, with average annual growth rate of 8.9% during the decade.²¹⁴ Foreign direct investment flowing from Japan to China, though with a tendency to fluctuate from year to year, also increased from 0.85% of total outward FDI in 1990 to a peak of 15.53% of total FDI in 1995, and was at 13.9% of total FDI in 1997 before dropping during the Asian financial crisis. Between 1990 and 2000, FDI to China grew at an average annual rate of 76.95%.²¹⁵ Japan's overall trade dependency on China also increased modestly, with Japanese trade with China as a percentage of total trade increasing from 6.4% in 1990 to 13.31% in 2000. Total Japanese trade

²¹⁰ Six of fourteen projects announced in the Overseas Economic Cooperation Fund's (OECF, which is responsible for extending loans under the ODA program) FY 1998 loan package (totaling nearly Y32 billion) were for environmental concerns (Johnstone, 1998, p. 1077).

²¹¹ Japan pushed for an early lifting of sanctions against China after Tiananmen (Heginbotham and Samuels, 1998, p. 187).

²¹² Japan was particularly adept at leveraging multilateral economic institutions, such as the Asian Development Bank, to disburse funds in support of Japan's own objectives. For more on Japan's influence and use of special funds in the Asian Development bank, see Lincoln, 1993, p. 136.

²¹³ Author's calculations based on ADB Annual Reports and Annual Reports of the Japan Special Fund.

²¹⁴ Author's calculations using CEIC data, using JPY currency. Trade with China includes Hong Kong, since much trade with China goes through Hong Kong. CEIC Data, 2008b.

²¹⁵ Author's calculations using JETRO data, Japan External Trade Organization, 2008.

with China as a percentage of GDP more than doubled in the 1990s, rising from just 1.1% to 2.5% of GDP.²¹⁶

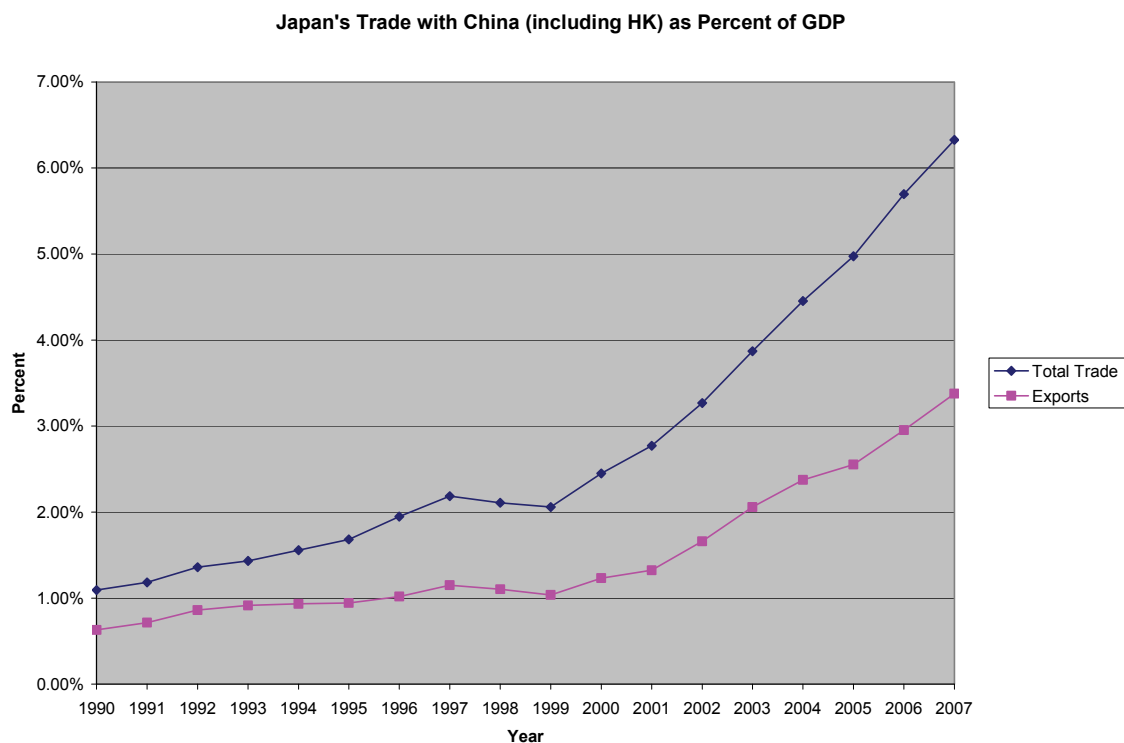


FIGURE 2.3
Source: CEIC Data²¹⁷

²¹⁶ Author's calculations using CEIC data, CEIC Data, 2008b.

²¹⁷ Calculated using data denominated in JPY, GDP figures by expenditure, current price, benchmark year 2000.

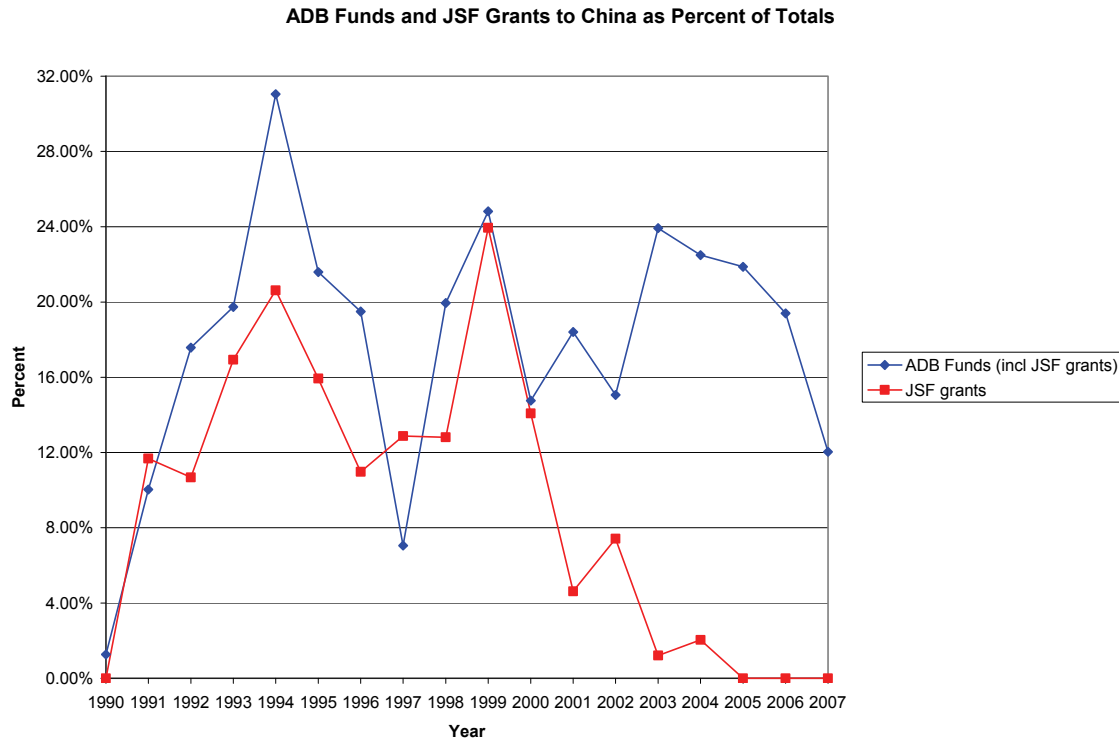


FIGURE 2.4²¹⁸

Source: ADB Annual Reports and JSF Annual Reports, various years.²¹⁹

3. Variables Affecting Japan's Response to China: 1992-2001

The Role of Regional Threats in Shaping Japan's Policies towards China

²¹⁸ ADB Funds includes: Loans from ADB ordinary capital resources (OCR), grants, and technical assistance (TA). TA consists of: ADB technical assistance special fund (TASF), JSF, regional cooperation and integration fund (RCIF), Pakistan earthquake fund (PEF).

²¹⁹ Asian Development Bank, 2007a, Asian Development Bank, 2006, Asian Development Bank, 2005, Asian Development Bank, 2004, Asian Development Bank, 2003, Asian Development Bank, 2002, Asian Development Bank, 2001, Asian Development Bank, 2000, Asian Development Bank, 1999, Asian Development Bank, 1998, Asian Development Bank, 1997, Asian Development Bank, 1996, Asian Development Bank, 1995, Asian Development Bank, 1994, Asian Development Bank, 1993, Asian Development Bank, 1992, Asian Development Bank, 1991, Asian Development Bank, 1990, and Asian Development Bank, 2007b.

The evolution of post Cold War threats from North Korea shaped Japan's strategic calculus, raising awareness of Japan's defense shortcomings and vulnerability to attack. Pyongyang's actions provided external stimulus and justification to shape Tokyo's defense planning. North Korea tested several missiles in May 1993—some of which were believed to be the Nodong-1 ballistic missile—launching them in the Sea of Japan over the Yamato Ridge.²²⁰ The escalation of the North Korean nuclear crisis in 1994, in which the US had considered military options against Pyongyang, further awakened Japan to the fact that the region was not secure, and revealed the SDF's very limited to non-existent operational plans to respond to a crisis on the Korean peninsula, lack of interoperability between Japanese and US forces, and weak Japanese intelligence.²²¹

North Korea's threat to Japan's security became more intense in the late 1990s, spurring Japanese security planners to strengthen Tokyo's ability to deal with evolving ballistic missile and maritime threats. The August 1998 North Korean launch of a three-stage, intermediate range, Taepodong missile that flew over Japan's main island of Honshu shocked the Japanese government.²²² More overt North Korean incursions took place in the form of two spy ships (disguised as fishing trawlers) entering Japanese territorial waters off the Noto Peninsula in March 1999. This incident resulted in a JMSDF P-3C dropping warning bombs, and Coast Guard and JMSDF ships firing warning shots and chasing the spy ships.²²³

The Roles of China and the US in Shaping Japan's Response to China

A major factor in determining Japan's policy stances towards China was the latter's military modernization and belligerent behavior. Witnessing the success of US forces in the Iraq war of 1991, Chinese military planners embarked on a modernization effort which was geared towards a focus on fighting regional conflicts "under high technology conditions"—a significant doctrinal shift from the

²²⁰ The supposed Nodong-1 in question traveled only 500 km, but the Nodong-1 system has a range of up to 1,300 km, which would cover most of Japan. See Gerardi and Plotts, 1994 and Yomiuri Shimbun, 1993.

²²¹ Samuels, 2007, p. 67-68.

²²² For more background, see Orfall and Kampani, 1998.

²²³ See Nanto, 2003 and Jane's Information Group, 2004a.

1980s and prior when the People's Liberation Army (PLA) was focused on fighting a long, continental war against the Soviets.²²⁴

A growing military budget fueled the PLA's modernization efforts in the 1990s. Between 1990 and 1995 (inclusive), PRC military budgets grew at an annual average rate of 3.1% if calculated in 2005 constant US dollars.²²⁵ However, from 1995 to 2000, China's military expenditures grew at an average annual rate of 9.76%.²²⁶ Part of the increase in the late 1990s was backed by an important policy shift in the 1997 China National Defense Law, which intimated that future defense expenditures would be linked with rates of economic growth, invalidating previous statements that China would not seek to increase its defense expenditures.²²⁷

The PLA's modernization efforts did produce stepwise results in the early 1990s, and combined with its military behavior and territorial claims, caused some degree of concern in Asia.²²⁸ Reportedly, China procured 72 Russian Su-27 fighters—capable of defeating Japan's F-15Js—in 1993, and by 1995 had more than thirty of these aircraft.²²⁹ PRC efforts to modernize its ballistic missile arsenal

²²⁴ Chinese leadership were particularly concerned with the crushing defeat of Iraq's forces, which employed much Soviet and Chinese built equipment. For a brief narrative of the evolution of PRC military doctrine, see Chapter 3 of Cliff, Fei, Hagen, Hague, Heginbotham and Stillion, 2011.

²²⁵ Stockholm International Peace Research Institute (SIPRI), 2009.

²²⁶ Author's calculations based on SIPRI data, Ibid. Japanese analysis often cited double-digit growth rates using Chinese currency figures which (presumably) have not been deflated. For example, the 1994 *Defense of Japan* cites that the increase in the PRC defense budget in 1993 (over 1992) was 22%. However, using 2005 constant US dollar figures from SIPRI reveals an actual 7.3% decrease between 1992 and 1993.

²²⁷ This interpretation of the 1997 PRC National Defense Law comes from Heginbotham and Samuels, 1998, p. 181. Official Chinese government language on the law reads: "Pursuant to the National Defense Law and the Budget Law, and guided by the principle of coordinated development of national defense and the economy, the Chinese Government decides on the size and use of defense expenditures in an appropriate way to meet the demands of national defense in keeping with China's economic development." (Embassy of the People's Republic of China in the Republic of Albania, 2008.) The 1995 PRC Defense White Paper states that "As long as there is no serious threat to the nation's sovereignty or security, China will not increase its defence spending substantially or by a large margin." (Information Office of the State Council of the People's Republic of China, 1995).

²²⁸ The PLA began a steady retirement of old fighter jets, destroyers and submarines, and procured new equipment and developed new ballistic missiles during this period.

²²⁹ International Institute for Strategic Studies, 1993, p. 148. and International Institute for Strategic Studies, 1996, p. 181.

resulted in perhaps ten CSS-5 (DF-21) medium-range ballistic missiles, and the long-range, mobile launched DF-31, by 1995.²³⁰

Other Chinese military and quasi-military activities matched increasing military budgets (Figure 2.1), all of which prompted statements of caution and alarm from Japan.²³¹ China's nuclear weapons testing was particularly damaging to Japan's security in light of its status as the only nation to have been attacked by nuclear weapons.²³² China also asserted its territorial claims in the South China Sea and the Senkaku Islands (known as the Diaoyu Islands in China) both militarily and legally.²³³ In 1992, the PRC promulgated the Territorial Waters Act, stipulating that most islands in the South and East China Seas (such as the Senkakus or Diaoyus) belong to China.²³⁴ Chinese missile test-firings north of Taiwan in 1995 and 1996—with one missile landing within 60 kilometers of Yonaguni Island, Okinawa prefecture—were of greatest concern to the Japanese.²³⁵ The late 1990s also witnessed numerous Chinese incursions into Japan's Exclusive Economic Zone (EEZ): in February, 1996, a PRC rig was seen drilling for oil near one of Diaoyu/Senkaku islands; there were 16 such incursions of Chinese “research vessels” (actually part of the PRC military) into Japan's EEZ in 1998, 33 in 1999, and 24 in 2000.²³⁶

Washington's support of Tokyo under the framework of the US-Japan Alliance, and dissatisfaction with Japan's commitment to the Alliance, also served as a factor in drawing Japan closer to the US.

²³⁰ International Institute for Strategic Studies, 1995, p. 169.

²³¹ In September 1996, the Commander of the PLA Academy of Sciences stated that force could be used to defend the Diaoyu islands (Green, 2003, p. 86).

²³² With the exception of 1991 (no tests) and 1993 (only one test) the PRC conducted two nuclear weapons tests per year between 1990 and 1996, inclusive, for a total of eleven tests in the 1990s (James Martin Center for Nonproliferation Studies, 2007). Continued Chinese nuclear weapons testing in 1995 and 1996, despite Japanese protests, caused some in the Japanese government to question whether its policy of engaging China had any influence over its behavior. Variation in blast yields suggests that the PRC was experimenting with several different types of new bombs. China has not conducted further nuclear tests since July 1996.

²³³ Multiple nations have overlapping claims over the Spratly Islands and Paracels in the South China Sea. On July 8, 1992, Chinese troops landed and erected a marker on Da Lac. See International Institute for Strategic Studies, 1992, p. 139.

²³⁴ Japan Defense Agency, 1993.

²³⁵ Mochizuki, 2007a, p. 750.

²³⁶ See Green, 2003, p. 85 and Drifte, 2003, p. 57.

The end of the Cold War catalyzed what was already growing US pressure for Japan to contribute more to defending itself, and to the bilateral alliance as a whole.²³⁷ As an alliance partner of Washington, Tokyo agonized over the manner in which it would contribute to the UN-sanctioned coalition response against Iraq's invasion of Kuwait in 1990. In the end, amidst strong US pressure, it contributed US \$13 billion to support the effort, which was belittled by many as simply "checkbook diplomacy." Similarly, Japan's failure to respond in a timely and effective manner to requests for cooperation with the US during the 1994 Korean Peninsula nuclear crisis frustrated the US.

Domestic Influences on Japan's China Policy – 1992-2001

Landmark domestic political changes, which upset the interaction patterns among the bureaucrats, politicians and business elites, transpired during the 1990s. Despite reform efforts to change the 1955 System, resistance to change was powerful enough that Japan retained much of the Asian developmental state apparatus during this period.

Emerging from the 1980s as one of the world's most envied economies and GDP-growth success stories, Japan's domestic political structure—featuring a domestic political regime (1955 System) which supported an iron-triangle among the LDP, bureaucrats and business—and ideational emphasis on technological and economic strength—made Japan an exemplar of the Asian developmental state type.²³⁸ Yet a decade of domestic shocks began the process of destabilizing the foundations of Japan's Asian developmental state polity.

²³⁷ During the 1980s, the Reagan administration had pressured Nakasone to increase defense spending, but to no significant avail. See Kelly, 1983.

²³⁸ To summarize, Japan's policymaking environment before the end of the Cold War, and in the early 1990s, was characterized by three distinct features: 1) the overwhelming influence of the bureaucracy; 2) within the bureaucracy, the dominance of ministries responsible for economic affairs; 3) national security defined in largely economic/techno-economic terms by rulers (the Yoshida Doctrine).

The 1991 collapse of the Japanese asset bubble ushered in severe economic stagnation that had lasting effects on domestic politics.²³⁹ Combined with numerous financial scandals among politicians at the highest levels, widespread perception was that the economic failures of Japan were linked with a broken political system.²⁴⁰ Dissatisfaction with politics as usual led to the defeat of the LDP in the 1993 lower house elections, signaling the beginning of the end of the 1955 System, with several consequences: loyalty to the LDP no longer guaranteed personal career success; politicians had to be more responsive to public opinion, and; formerly close ties between the cabinet and bureaucracy unraveled.²⁴¹ While the LDP later regained power, it now had to compromise with other parties.²⁴²

Further domestic shocks abetted the weakening of the 1955 System. The government's dismal response to the great Hanshin earthquake and Aum Shinrikyo sarin gas attacks, both in 1995, highlighted the shortcomings of business-as-usual government operations, and led to calls for further changes in reforming Japan's problematic system of governance.²⁴³ Much of the impetus behind these changes came from not only Japan's economic problems, but also immense damage to the

²³⁹ For a detailed analysis of the Japanese banking and financial collapse, see Nakaso, 2001.

²⁴⁰ Multi-member districts result in more expensive electoral races, since candidates not only need to compete against others within their own parties, but against those in others as well. See Leadbeater, 1993. For a description of corruption in Japan's financial system, see Weisman, 1991. For examples of other scandals, see Eckert, 1992.

²⁴¹ See Pempel, 1997, p. 357 and Pyle and Heginbotham, 2001, p. 114. Between 1993 and 1994, domestic political scandals and intra-party factional splits caused the LDP to briefly lose power. The scandals included the arrest of LDP Deputy Prime Minister Kanemaru Shin on March 27, 1993, for a ¥500 million kickback scandal from a trucking company requesting preferential treatment from transportation regulators (Pempel, 1997, p. 356).

²⁴² Hughes, 2004, p. 54. Political pressures and chaos which led to the forced resignations of two prime ministers during this era eventually led to the landmark electoral reforms of 1994, in which multi-seat districts were replaced with single-seat ones. As the scandals which had rocked Japan were driven by "money politics," these reforms aimed to reduce the amount of political contributions necessary for parliamentary races. Overall, the 1994 electoral reforms made Diet elections more competitive (from an inter-party perspective), diminished the dominant advantages of the LDP, and reduced the power of LDP factional leaders (Shinoda, 2003, p. 20 and Green and Self, 1996, p. 45). Previously, faction leaders in the LDP played a decisive role in LDP presidential elections, and were in some ways more powerful than the prime minister, often openly challenging his leadership. After the 1994 electoral reforms, their influence gradually diminished as younger politicians, who were more connected to their constituents than some of the older factional leaders, began to openly criticize LDP leaders and the government (Shinoda, 2003, p. 20). As it was the factional leaders that played an important role in the power linkages among the business community and bureaucracies, the weakening of factional leaders had the effect of diminishing the influence of bureaucrats.

²⁴³ Hughes, 2004, p. 48. See also Masahiko, 1998. One reason for the poor government response was that different ministries with different jurisdictional portfolios were not able to decide quickly how to deal with the Hanshin earthquake. Each ministry had its own interests, but what was lacking was leadership to coordinate the response.

reputation of the previously sterling bureaucracy.²⁴⁴ Citizens and politicians alike began to realize that blind faith in the bureaucracy no longer assured phenomenal economic growth that had vaulted Japan to the second largest economy in the world. The Diet, which had previously insulated the bureaucracy and Japan's neo-mercantilist foreign policy from the vicissitudes of public opinion, began to shed this buffering function.²⁴⁵

Prime Minister Hashimoto Ryutaro came into office in 1996 with promises of comprehensive reforms, including the bureaucracy. His accomplishments included policies which improved the ability of the state to act more decisively in foreign and security affairs. For example, reforms in 1997 increased the role of uniformed officers within the JDA, with uniformed officers now able to appeal the decisions of the JDA director general.²⁴⁶ To address the government's poor handling of the 1995 Hanshin earthquake and sarin gas attacks, Hashimoto took steps to improve the cabinet's crisis management capabilities by creating the position of Deputy Chief Cabinet Secretary for Crisis Management, under the Office of Crisis Management.²⁴⁷ Hashimoto also formed the Administrative Reform Council, which led to the rise of influence of the Chief Cabinet Secretary, and the Administrative Deputy Chief Cabinet Secretary, who screens and approves appointments.²⁴⁸

To strengthen the leadership of the Prime Minister's office and cabinet over the ministries and bureaucrats, Hashimoto laid the groundwork for further administrative reforms—known as the 1999 and 2001 administrative reforms for the dates they were actually implemented.²⁴⁹ Though he had attempted to reform the bureaucracy and the economic system, he faced stiff resistance from the

²⁴⁴ Revelations that bureaucrats abused relationships and were corrupt caused a huge rift in public trust (Curtis, 1999, p. 56). See also Pyle, 2007, p. 283-4. Even in the early 1990s, public trust in the bureaucracy was eroding. An Asahi Shimbun poll in 1994 noted that 51% of respondents did not trust bureaucrats. Asahi Shimbun, May 15, 1994, cited in Nakano, 1998, p. 295.

²⁴⁵ Pyle, 2007, p. 356.

²⁴⁶ Samuels, 2007, p. 101. Under Hashimoto, the Japan Defense Intelligence Headquarters was also established in 1997, and was led by a three-star general (Green, 2003, p. 64).

²⁴⁷ See Hughes, 2004, p. 63 and Asahi Shimbun, 1998.

²⁴⁸ Shinoda, 2007, pp. 63-69.

²⁴⁹ While the Diet approved the framework of Hashimoto's reform plan in 1998, some institutional changes did not take place until 2001.

bureaucracy,²⁵⁰ and was ultimately unable to realize the fruits of his labor due to his forced resignation after 1998 LDP electoral losses.²⁵¹

Prime Minister Hashimoto's initiatives led to changes which strengthened the ability of the prime minister's office (*kantei*) to manage domestic and external crises, and foreign policy in general. Implementation of these changes occurred in 1999 (known as the 1999 administrative reforms) and beyond, after his tenure.²⁵² The 1999 administrative reforms also shrunk the influence of the Cabinet Legislative Bureau (CLB), one of the prime bureaucratic guardians of the Yoshida Doctrine and Japan's CDS mentality, defining security in primarily economic terms; no longer was the CLB allowed to answer Diet interpellations on behalf of Cabinet ministers.²⁵³ It was not until Prime Minister Koizumi Junichiro took the reins of power in 2001 that the prime minister's office was able to take advantage of these structural reforms.

The dismantlement of the 1955 System also meant that previously marginalized opinions and politicians would have greater opportunities to advance their policies and views. Former Secretary-General of the LDP, Ozawa Ichiro, echoed some of the sentiments of Nakasone and raised calls for

²⁵⁰ Curtis, 1999, p. 39.

²⁵¹ Continued economic malaise and historically unprecedented levels of unemployment led to widespread public discontent, which precipitated the LDP's landslide defeat in the July 1998 upper house (House of Councilors) elections, adding to the momentum to change the corrupt and ineffective ways of politics. Discontent had apparently been brewing over widespread unemployment, which had reached 4.1% in May of 1998, and was 8.4% for men under 25 (Business Week, 1998). For further insights into the culture of corruption and mishandling of Japan's economic problems as catalyst for the LDP's historic 1998 loss, see: Hironaka, 1998 and Nagashima, 1998.

²⁵² Hashimoto's initiatives led to changes in the Cabinet Law between 1999 and 2001, which had the overall effect of strengthening the Cabinet by allowing Cabinet members to take action without first obtaining the approval of the relevant government bureaucracy (Boyd and Samuels, 2005, p. 38). For further information on the 1999 and 2001 reforms, see Shinoda, 2003. Government documents describing changes to the Cabinet Law are at times surprisingly direct in addressing the need to strengthen the role of the politicians over the bureaucrats. Revision of the Cabinet Law included provisions to allow for more flexibility in making political appointments to the Cabinet Secretariat, with the new system referred to as the "term recruitment system." See Paragraph 7, Section 2, "Establishing a System with More Effective Political Leadership," Kantei, 2001. Other language in the Cabinet office documents reveal motivations of strengthening political control over the bureaucrats. For instance, Section 5 of "Establishing a System with More Effective Political Leadership" states "Critics have pointed out that the Policy Councils have only acted as a camouflage over the self-righteous policies of bureaucrats, and have merely accelerated the sectionalism of officialdom." See Kantei, 2001.

²⁵³ Samuels, 2007, 76. Recall that the "anti-mainstream conservatives," comprised of parliamentarians who held a more militaristic view of Japan's security, and who were/are more wary of China as a military threat, felt that the CLB had seized control of the military away from the politicians. See Samuels, 2007, p. 74.

reform that fell on more receptive years as the 1955 System began to weaken. In his outspoken *Blueprint for a New Japan*, Ozawa criticized the lack of responsible leadership in the politics-as-usual 1955 System, and stressed that Japan needed to become a “normal nation” that was not only concerned with economic growth, but one that would also be a responsible stakeholder in international security matters.²⁵⁴ Yet it was not until Koizumi’s forceful reforms that voices such as Ozawa’s actually translated into policy.

ASSESSING JAPAN’S RESPONSE TO CHINA AGAINST STRUCTURAL REALISM, 1992-2001

For the years 1992-2001, do explanations grounded in structural realism offer a convincing explanation of Japan’s policy stances towards China? This section reviews material in the above paragraphs against the predictions of structural realism, and concludes that overall, structural realism does fairly well at explaining Japan’s political and military responses to China, but less well at explaining Japan’s economic responses to China.

According to realist principles, external security threats serve as the strongest motivator of state behavior. During this period, is there evidence to suggest that China was a threat to Japan? Were there points of conflict between the two powers? While China’s military capabilities strengthened during the course of the 1990s, the level of threat it posed to Japan was relatively low during the early 1990s, but increased after 1995. China’s behavior became more threatening after its military exercises and missile tests in the Taiwan Straits in 1995 and 1996, and frequent incursions of Chinese fighters into Japanese airspace.

If Japan’s policy response to China was consistent with the predictions of structural realism, then one would expect to see a general pattern of behavior in response to rising threats from China and North Korea during the 1990s: external balancing, with Tokyo forging new alliances and security arrangements and embracing dominant allies, such as the US; internal balancing, by reconfiguring and strengthening force structures to deter or defeat a primary threat, and by allocating more funds to

²⁵⁴ Ozawa, 1994.

defense; regulation of economic activities with the dominant threat, by limiting the scope of economic engagement with China, and subordinating economic interests in favor of military ones.

Generally speaking, structural realism explains Japan's internal balancing behavior during the early 1990s. With the evaporation of the Soviet Union as a threat, Japanese force planners had reason to de-emphasize its assets against Soviet air and maritime incursions in northern Japan—indeed, it reduced its military deployments in northern regions such as Hokkaido. While China's growing defense budget, military buildup and territorial assertions in the South China Sea were disturbing, its overall posture was relatively quiescent during the early 1990s; it was a menacing North Korea which functioned as Japan's main external threat during these years.

In response to North Korean missile test firings into the Sea of Japan, China's nominal military spending increases, and assertion of control over contested territories such as the Senkaku Islands, Japan repositioned its forces to defend against these threats. Acquisition of technologies and equipment to facilitate air support and to defend offshore islands—E-767 AWACS and the Oosumi class amphibious ship—were also decided upon during this period. While realist logic would predict an increase in Tokyo's defense spending in the early 1990s, lack of an increase does not necessarily invalidate realism's explanatory power. That Tokyo did not increase defense spending during the early 1990s is justifiable given its domestic financial crisis, and the fact that new threats supplanted, rather than supplemented, the old Soviet threat.

Structural realism appears to explain most of Japan's military deployments and acquisitions in the late 1990s. The commissioning of the Oyashio class of submarines and the first Oosumi class helicopter/hovercraft landing ship represent efforts to repel a possible Chinese threat to Japan's offshore islands. The deployment of the Oosumi at Kure naval base in western Japan also suggests a geographical emphasis on protecting against threats facing the Ryuku islands (Okinawa Prefecture)—areas vulnerable to Chinese attack in the event of a conflict in the Taiwan Straits. Authorizations for two additional Oosumi class vessels during this period represent internal balancing efforts, as were plans to upgrade the SH-60J anti-submarine helicopters. Further examples of internal balancing were evident in the MSDF's attempts to address one of its key weaknesses—air defense. JDA authorization for more advanced Takanami class DDGs, which would enhance Japan's capabilities to

repel an invasion of offshore islands and strengthen maritime air defenses, is another example of internal balancing.

Explanations rooted in structural realism seem to lose some of their explanatory power only when Japan's defense spending in the late 1990s is examined. Although threats coming from North Korea (1998 missile launches) and China (military exercises in the Taiwan Straits) increased significantly during this period, Japan's military expenditures remained relatively flat during this time, and actually decreased in both nominal and real terms at some points. While one can argue that the FY1995 NDPO and FY1995 MTDP, laying out defense needs and spending for a period of five years, was crafted based largely on threats occurring during the early 1990s, calls for reductions in defense spending actually occurred during 1997, *after* the destabilizing PRC military exercises and missile test firings in the areas around Taiwan. And although Figure 2.1 shows that PRC military expenditures as a percentage of GDP remained relatively stable during this period, real military expenditures increased an average of 9.76% per year between 1995 and 2000. Tokyo's flat defense spending, both in 2005 constant dollars and percentage of GDP terms, is surprising under the framework of structural realism—which would predict increasing expenditures towards defense.

Tokyo's defense policy statements during the 1990s are also consistent with realist logic. Defense policy statements on China, though nuanced in terms of specifying China as a threat, indicate rising levels of concern with China's military buildup and activities. Statements from official Japanese defense documents in the wake of rising Chinese and North Korean threats also indicate plans to deter and repel them. While the FY1996 NDPO and 1997 Guidelines of Japan-US Defense Cooperation are deliberately vague as to the circumstances under which Japan would militarily intervene in a conflict between China and Taiwan, such strategic equivocation is not necessarily inconsistent with structural realism.

Japanese efforts to deepen alliance relations with the US during the late 1990s are also explained by realist logic. As Tokyo faced increasing threats from Beijing and Pyongyang, it aligned away from China by deepening its embrace of the US alliance. The 1996 Japan-US Joint Declaration on Security, and 1999 US-Japan Memorandum of Understanding on joint development of BMD are

examples of this deepening military alliance. Realism accurately explains Japan's efforts to cultivate relations with India in 2000 as well.

Under thinking consistent with realism, one would expect that if China had posed a threat to Japan, the latter would have embarked on efforts to restrict economic intercourse with the former. Japan would have also been expected to subordinate its economic interests in favor of enhancing its security and military posture vis-à-vis China. While China's threat to Japan was not severe during the 1992-2001 era, realist logic would predict that the increase in threat would have led Japan to decrease its economic engagement with China. Instead, Japan actually encouraged deeper economic engagement with China.

Tokyo's ODA to Beijing in the early 1990s is somewhat understandable given that China's "great leap forward" in its military was only in its incipience, but is inconsistent with structural realism during the late 1990s when its military behavior was increasingly threatening of Japan's security. It is even more puzzling given that the Japanese government announced in 1991, and included in its 1992 ODA Charter, language stipulating that use of ODA for military activities would go against its funding principles.²⁵⁵ For instance, that Prime Minister Hashimoto announced a major ODA package to China in 1997, and that JEXIM financing was not only unabated, but grew after the PRC's destabilizing military exercises in the Taiwan Straits in 1995-96, contradicts the implied predictions of structural realism.

ASSESSING JAPAN'S RESPONSE AGAINST DOMESTIC GRAND STRATEGY EXPLANATIONS, 1992-2001

Domestic grand strategy theory purports to explain Japan's behavior towards China based on conceptions of security which are broader in scope than those under structural realism. Based on variation in state type, the more a state approaches the Asian developmental state ideal type, the more

²⁵⁵ Four critical criteria are listed in Japan's 1992 ODA charter, including one which states that "Any use of ODA for military purposes or for aggravation of international conflicts should be avoided." This statement implies that ODA should not free up a recipient country's funds that would have been spent elsewhere to be used for military expenses. Ministry of Foreign Affairs, 2003a. See also Ministry of Foreign Affairs, 2002.

it is expected to subsume military/territorial security interests in favor of economic interests *if* the Asian state is economically strong relative to China. In other words, it is expected to view external threats via “development” lenses. And the greater its developmental state characteristics, the greater its tendency to enmesh itself economically with China. Two questions then must be asked: What type of state was Japan during this period? What was Japan’s economic strength relative to China?

During the 1992-2001 period, Japan was an Asian developmental state attempting to liberalize its economic and political structure, thereby shifting towards the laissez-faire state type. In terms of ideation, an emphasis on economic strength started to give way to considerations of military strength with the demise of the Yoshida Doctrine. To be sure, Japan was still an Asian developmental state—just less so of one than it had been during the 1980s. Structurally, close and collusive ties among the bureaucrats, LDP, and business leaders were only beginning to weaken after 1999. And Japan was still restrictive of FDI inflows.

In terms of relative economic strength, Japan possessed an enormous lead over China if one considers GDP per capita on a purchasing power parity (PPP) basis. China began to narrow the gap between 1992 and 2001, but by 2001, Japan’s GDP per capita (PPP) was still approximately ten times greater than that of the PRC. Other surrogate indicators confirm Japan’s technological and economic dominance. Japan spends more than three times its percent of its GDP on R&D than did China in 2001, and its researchers in R&D per million was almost ten times higher. Japan’s and China’s economies were also trade complementary.²⁵⁶

Domestic grand strategy theory appears to explain much of Japan’s response to China. In the wake of increasing threats from China during the late 1990s, Japan’s stagnant defense budget and lukewarm embrace of the US may appear puzzling under structural realism. These policies become clearer when viewed under the domestic grand strategy theoretical lens. While Hashimoto had sought reforms to limit the power of the bureaucracy and improve the stature of uniformed officers within the JDA, Japan’s elites still defined security in economic terms during this period, and did not increase defense spending above the historically important 1% of GDP. While this was justified

²⁵⁶ See Appendix for data, Figures A.1, A.2 and A.3.

because of domestic economic malaise, Japan's leaders could easily have exceeded this limit if they had wanted to. The primary reason that spending did not exceed the 1% of GDP threshold was because of domestic politics under Japan's Asian developmental state structure—with the LDP needing to maintain unity among pragmatists and revisionists.²⁵⁷

The fact that Japan was beginning to shed some of its Asian developmental state characteristics in the 1990s, but still defined security in economic terms, also seems to explain the ambiguous nature of its security language and alliance documents. Throughout the 1990s, the language of Japan's alliance documents with the US and its diplomatic policies clearly indicated a strategic desire not to alienate China, and to keep China in Japan's commercial and diplomatic fold. While the 1996 Japan-US Joint Declaration on Security and subsequent "1997 Guidelines of Japan-US Defense Cooperation" were drafted with China (as well as North Korea) in mind, the ambiguous language of these documents concerning whether Japan would assist the US in a conflict involving China is deliberately vague. Although such vagueness can be intentional for strategic reasons, it also highlights Japan's continued interest in not alienating China. This interest arises because Japanese elites were filtering external threats through "development" lenses, which prioritized economic gains as opposed to strictly military power.

Japan's economic policies towards China during the 1990s are also explained by domestic grand strategy theory. Japan's strategic views of China as a market for Japanese businesses and source of national wealth led Japan to be the first nation to resume economic assistance to China since Tiananmen, with then Finance Minister Hashimoto being the first leader of any G-7 nation to visit China since 1989. ODA and other forms of technical assistance resumed their steady flow, peaking in 1995 when China became the largest recipient of JEXIM funding despite Chinese nuclear weapons and missile tests. The modest suspension of grant assistance to Beijing as a result of its nuclear actions was more symbolic in nature than anything else, and thus more in line with a domestic grand strategy explanation than a structural realist one.

²⁵⁷ Conversation with Rachel Swanger.

Despite China's militarily belligerent behavior, economic considerations outweighed military/security considerations, meaning that financial assistance policies designed to nurture Chinese economic development trumped military policies. Continued financial assistance to China during this time derives from Japanese elite's larger strategic thinking emphasizing economic security over military security. For example, Japan's FY1999 budget reduced defense spending by 0.2 percent (in JPY terms), but *increased* the ODA budget by 0.2 %.²⁵⁸ This is not to argue that Japanese elites sacrificed military security in favor of economic advantage. Rather, increased sensitivity to economic advantage meant that Japan was willing to trade some portion of future military strength in exchange for larger (perceived) economic gains.

JAPAN'S RESPONSE TO CHINA DURING THE KOIZUMI YEARS – 2001 TO 2006

Overview

Japan's sputtering economy and continued political scandals provided the domestic backdrop against which its foreign policymaking must be assessed. Accumulated widespread frustration with the inability of the domestic political machine to effect change and address the nation's internal problems prompted the election of an iconoclastic prime minister, Koizumi Junichiro. During his tenure, the nation's sense of security continued to be eroded by external threats far and near: the September 11, 2001 terrorist attacks, the second North Korean nuclear crisis that began in 2002, along with a North Korean missile launch towards Japan in 2006, and China's rapid and comprehensive military modernization. Despite these threats, military budgets continued to be circumscribed as many politicians were not willing to increase defense spending above the symbolic 1% of GDP mark. As a result, defense expenditures were flat during the Koizumi era since Japan's average annual GDP growth between 2001 and 2006 was only 0.2%.²⁵⁹

Nonetheless, Prime Minister Koizumi steered Japan to respond to external threats and deepen its relations with the US in an unprecedented manner. In partial response to China and regional threats,

²⁵⁸ Kajita, 1998.

²⁵⁹ CEIC Data, 2008a.

Japan embarked on modernizing its military with advanced equipment and systems acquisitions, took steps to more adequately prepare for China contingencies in the Taiwan Straits and Ryuku islands (Okinawa Prefecture), and deepened its military alliance with the US. It also expanded its political security ties with other nations surrounding China.

Of Japan's relations with China, the qualities which enabled Koizumi to force through sweeping domestic structural changes and respond to external crises in a more decisive manner also marred bilateral ties. At issue was Koizumi's insistence on visiting a controversial memorial for Japan's war-dead—the Yasukuni shrine.

1. Japan's Political and Security Response to China – 2001 to 2006

Language of Official Japanese Documents Pertaining to Defense and Security

A longitudinal survey of the Japan Defense Agency's *Defense of Japan* White Papers and other strategy documents during Koizumi's premiership reveals increasing concern about China's military rise and threats to Japan's offshore islands in Okinawa Prefecture. North Korea continued to pose a major military threat to Japan, but unlike in earlier years, Japanese security planners became more forthcoming in their expressions of concern over China's overall military threat to Japan. There was an increasing willingness to invoke China as justification for military acquisitions, deployments and strengthened security alliances with external powers such as the US. Put differently, it became less necessary to employ the North Korean threat as a cover for balancing against China.

Japanese defense planning documents confirm an explicit focus on China in addition to North Korea. For example, the 2001 Defense White Paper, compared to 2000 version, breaks new ground in terms of specificity of concerns about Japan's military buildup, and the PLAN's "blue water" aims.²⁶⁰ The

²⁶⁰ Przystup, 2001b. The language in the 2001 Defense of Japan reads: "Nevertheless, with respect to the recent increase in activities of Chinese ships near Japan, it is important to pay attention to Chinese movements

FY2005 National Defense Program Guideline (NDPG), formerly known as the National Defense Program Outline, was the first official national security document to openly identify a threat from the PRC.²⁶¹

The FY2005 NDPG and Mid-Term Defense Program (MTDP) (FY2005-2009) emphasize threats that originate primarily from North Korea and China. Listed in order of appearance, they are: 1) ballistic missile attacks; 2) attacks by guerillas or special operations units; 3) invasions of Japan's offshore islands; 4) incursions of sea and airspace surrounding Japan; 5) large-scale and special-type disasters.²⁶² Consistent with the larger strategic direction laid-out by the Mid-Term Defense Program, Japanese defense planners have argued that the MSDF should mobilize all of its resources to combat submarine activity.²⁶³ Under this motivation, MSDF efforts in recent years can be viewed as a response to activities by China since no other countries submarines have been intruding near Japanese territorial waters in recent years.

The 2006 *Defense of Japan* specifically mentions Japanese military preparations against "responses to aggression on offshore islands," actions which, at that time, could only have been conducted by China. And starting in the 2006 *Defense of Japan*, the pictorial diagram in Section 3, describing air specific operations, depicts enemy aircraft as SU-27s, jets that only China would employ in any conflict against Japan and/or the U.S. A trend towards less mitigated criticism of China's military activities can also be seen in official policy statements—embodied in the Diplomatic Bluebook—of the Ministry of Foreign Affairs.²⁶⁴

in relation to its naval strategy because China may aim at building a so-called "blue water" Navy in the future." (Japan Defense Agency, 2001, p. 55).

²⁶¹ Section II, Bullet 2 of the NDPG, reads: "China, which has a major impact on regional security, continues to modernize its nuclear forces and missile capabilities as well as its naval and air forces. China is also expanding its area of operation at sea. We will have to remain attentive to its future actions." The same section also notes that "massive military might, including nuclear arsenals, continues to exist in the region, and a number of countries are pouring in efforts to modernize their military forces," also implying China (Japan Defense Agency, 2004a). The FY2005 NDPG was approved by the Security Council and Cabinet Dec 10, 2004. The language on North Korea is more harsh in tone.

²⁶² Japan Defense Agency, 2004b.

²⁶³ Jane's Information Group, 2008c.

²⁶⁴ For example, the 2004 Bluebook praises China for its contributions to the Korean Peninsula Six Party Talks, and gingerly mentions Chinese research vessel violations of the 2001 China-Japan EEZ agreement (Ministry of Foreign Affairs, 2004). Moving to 2006, however, MOFA incorporated language expressing concern about China's arms buildup in its Diplomatic Bluebook (Ministry of Foreign Affairs, 2006a). Samuels notes that this

Military Budgets

If measured using constant 2005 US dollars, the average annual rate of *decrease* in Japan's defense budget between 2001 and 2006 was 0.05%.²⁶⁵ Japan's military expenditures, as measured in nominal, JPY terms, were also flat between 2001 and 2006. While stagnant defense spending was mostly justified because of Japan's overall low GDP growth rate during this period, it is nonetheless surprising given the increasing threats faced by Japan.

Military Deployments and "internal balancing"

Japan's military acquisitions and defense plans during the Koizumi years provide good indicators of the extent to which China was viewed as a threat, and confirm defense policy statements citing the Chinese threat to Japan's vulnerable offshore islands—those in Okinawa Prefecture, southwest Japan. As a whole, the Japan SDF became more muscular against all potential threats in the 2000s. As with acquisitions of any military force, those made by Japan were not geared towards deterring or defeating a threat emanating from just one country or source.²⁶⁶ However, it is possible to judge the likelihood that procurement of certain equipment is intended for a particular adversary. In Japan's case, acquisitions were often made while invoking the North Korean threat as justification. Upon closer examination, though, many of the systems Japan has acquired in the 2000s seem more fit to address threats coming from China.

is apparently the first time a Blue Book has incorporated this type of language (Samuels, 2007, p. 167). It is also the first Bluebook to call for transparency in China's military. Furthermore, the 2006 Bluebook points to potential conflict in the Taiwan Strait as having direct bearing on Japanese security—incorporating stronger language than in the 2005 Bluebook on this subject (Ministry of Foreign Affairs, 2006a, p.18).

²⁶⁵ Author's calculations using SIPRI data, see: Stockholm International Peace Research Institute (SIPRI), 2009.

²⁶⁶ Some of this force redeployment was geared towards the North Korean threat, some against terrorism and piracy (and in support of the US in its global war on terror), and still some to prepare militarily against contingencies in offshore islands involving China. Typically, equipment procured has been able to serve as an antidote against multiple threats. For example, the Japan Coast Guard (JCG) decided in 2000 to acquire long-range full-sized jet aircraft—the Gulfstream G-V—to assist in searching for Japanese sailors given piracy in Southeast Asia. However, the aircraft also have a reconnaissance purpose and were also intended to observe Chinese research vessels. See Jane's Information Group, 2000a, states that the aircraft in question have a range of 6,000 km. However, the actual range of the G-V is 12,000 km.

Japan's efforts to deter threats to its territorial waters and offshore islands are indicative of military balancing against Chinese contingencies given active territorial disputes with China over the Senkaku/Diaoyu Islands, maritime boundaries in the East China Sea Exclusive Economic Zone (EEZ), and vulnerabilities in Okinawa Prefecture. Deployments and acquisition plans made during the 2001-2006 period were meant to bolster naval, naval aviation, antisubmarine warfare, and regional power projection abilities which would all be effective at repelling an attack against Tokyo's offshore territories.

The southwestern orientation of Japanese military preparations serve as a strong indication of efforts to deter a possible Chinese attack. To deal with external security threats to Japan's surrounding waters and offshore islands, the Japanese SDF created new units capable of responding to coastal and maritime incursions. In 2001, the JMSDF created a special warfare unit in Etajima, Hiroshima prefecture (in southern Japan) for the purposes of boarding and seizing suspected spy ships.²⁶⁷ As of 2004, the GSDF also had plans to assign troops to Miyakojima (an island in Okinawa prefecture further southwest of Okinawa island), as part of an overall effort to strengthen defense forces on remote southwestern islands.²⁶⁸ The ASDF began to construct a SIGINT facility on Miyako island in 2006 to gather military signals intelligence, and as part of Japan's efforts to defend remote islands.²⁶⁹ Other acquisitions were also consistent with efforts to bolster offshore island defense, intelligence, reconnaissance and surveillance.²⁷⁰

²⁶⁷ Jane's Information Group, 2004a. Jane's states that the helicopters are SH-69J, which is probably a misprint as no such helicopters exist. The same year, a new JMSDF naval base also opened in Maizuru, in central/western Japan on Honshu, to deal specifically with foreign incursions into Japanese waters, and was equipped with six SH-60J anti-submarine helicopters. Separately in 2002, the GSDF created a 640-strong Western Army Infantry Regiment, at Ainoura Camp in Nagasaki prefecture (Kyushu island, southern Japan) to deal specifically with offshore territorial incursions, and to conduct reconnaissance activities (Jane's Information Group, 2005a).

²⁶⁸ Japan Economic Newswire, 2004.

²⁶⁹ The Daily Yomiuri, 2006.

²⁷⁰ For the JMSDF, priorities were directed towards multi-use aircraft for patrol, warning and surveillance. In 2004, a modified version of the P-3C, the EP-3D (for signals and electronic intelligence gathering), squadron was deployed at Iwakuni base in southern Japan (Jane's Information Group, 2004a). Some equipment modernization programs begun in the late 1990s also produced results during this time frame. For example, the first deliveries of Japan's SH-60K, the upgrade to the SH-60J anti-submarine warfare helicopter, arrived in 2005—with 23 scheduled to be delivered by FY2009 (Jane's Information Group, 2008b).

Comprehensive modernization and strengthening of Japan's naval and air forces represented a serious effort to deter and counter potential Chinese threats. Advanced attack/anti submarine warfare submarines, the Souryu class SSK, were authorized in the FY2004 budget.²⁷¹ The FY2005 Mid-Term Defense Program stipulated the need for three Aegis upgrades of the earlier Kongo class DDG destroyers, strengthen their capabilities to defend against incoming ballistic missiles. Two Atago class DDGH destroyers were authorized in FY2002 and FY2003. The largest Aegis-equipped ships in the world, the two are based at MSDF bases in central and western Japan²⁷²—conveniently positioned close to North Korea and the Ryuku Islands chain, which approach Taiwan. Most formidable of Japan's efforts to upgrade its naval and naval aviation power projection capabilities was the Hyuga class DDH destroyer, authorized in the mid-2000s as a large helicopter-carrying guided-missile destroyer.²⁷³

Japan's ASDF re-deployments have also indicated preparations to counter a Chinese incursion against Japan's offshore islands.²⁷⁴ To improve Japan's air defense capabilities over the Ryuku Island chain in light of China's modernizing air force, the JDA decided in 2005 to replace a squadron of older F-4 fighters at Naha air base, Okinawa, with F-15s by 2008.²⁷⁵ To support in-flight refueling, the JASDF

²⁷¹ Jane's Information Group, 2008d. Japan's decision to build the Souryu class SSK diesel-electric attack/anti-submarine warfare submarine represents an effort to counter China's rising submarine capabilities, but would also be useful in dealing with North Korean threats. The first of five of these advanced submarines was authorized in the FY2004 budget, and is expected to be commissioned in early 2009. The Souryu class SSK has a quiet air-independent propulsion system.

²⁷² At 7,750 tons standard and 10,000 tons fully-loaded, these are also the MSDF's largest surface combatants. The Atago class has improved radar and Aegis systems over the older Kongo class vessels. They were commissioned in 2007 and 2008. See Jane's Information Group, 2008e. One destroyer (Atago) is based at Maizuru in central Japan, the other (Ashigara) at Sasebo in western Japan, on Kyushu island. See Kiyotani, 2008.

²⁷³ This vessel contains a through-deck resembling an aircraft carrier, is designed for four anti-submarine/transport helicopters, and at 18,000 tons fully-loaded, is actually larger than some aircraft carriers used by other countries. For example, Spain's *Príncipe de Asturias* aircraft carrier displaces only 17,188 tons when fully loaded (Grove, 2007). With two flight-deck elevators, some sources state that the Hyuga class is capable of carrying up to seven helicopters, or even V/STOL fixed-wing aircraft, such as the Joint Strike Fighter F-35. For technical information, see: Jane's Information Group, 2008f. For additional commentary and insights, see: Fish, 2007 and Grove, 2007.

²⁷⁴ Jane's Information Group, 2008h.

²⁷⁵ The Daily Yomiuri, 2005. According to one report, Japan Defense Ministry sources indicated the deployment was aimed at balancing against modernizing Chinese air power (see The Daily Yomiuri, 2007). However, another source indicates that a JASDF spokesperson "denied local media reports that the deployment...was in response to growing Japanese concern at China's military presence in the

created the first aerial refueling squadron (401 Squadron at Komaki) for the Boeing KC-767s, the first (out of a total of four) of which was delivered in 2008.²⁷⁶

Military Exercises

SDF military exercises provide a useful indicator of the contingencies for which Japan has rehearsed, and of the degree of closeness of the partners with which it trains. The beginning of substantive, live-fire exercises in recent years, and increased training with the US, suggest more serious preparation for conflicts against China and North Korea, and a deeper military embrace of the US.

Joint military exercises between the Japan SDF and armed forces of the US have taken place since 1971, but the frequency and scope of exercises have increased during the 2000s.²⁷⁷ Joint US-Japan exercises in FY2005 and FY2006 numbered 24 and 16, respectively, and included training across all services.²⁷⁸ The focus of recent exercises have also shifted to training for the priority contingencies outlined in the FY2005 NDPG—invasions of Japanese offshore islands.²⁷⁹ Combat exercises that were focused only on defending Japan's offshore islands (not part of disaster relief exercises) were held,

region.”(Jennings, 2007) In addition to being a more capable than the 70s-vintage F-4s, the F-15s are a better match against Chinese SU-27 and SU-30 jets, and are able to refuel mid-air.

²⁷⁶ Jane's Information Group, 2008h. The KC-767 squadron was not created solely for refueling F-15s at Naha, as those F-15s would likely be able to rely on USAF tankers for refueling in emergencies as well.

²⁷⁷ There were three joint training exercises between the JASDF and USAF in 1978. In 1985, there were thirteen US-Japan joint military exercises. See Samuels, 2007, p. 94.

²⁷⁸ See Japan Defense Agency, 2006, and Japan Defense Agency, 2007. Examples of recent exercises include: July 2006, deployment of F-15Js from Komatsu to Eielson AFB, Alaska, for “Co-operative Cope Thunder,” training in joint operations; June 2007, deployment of Misawa-based F-2s to Andersen AFB, Guam, for “Cope Thunder North,” where F-2s conducted the first live weapons delivery. See Jane's Information Group, 2008h.

²⁷⁹ The known precursors to actual training exercises originated in JDA documents and contingency plans created in 1997 and 2004. A confidential 1997 GSDF document, which entered the public domain in 2001, described theoretical responses to a PRC invasion of several islands in Okinawa prefecture (Jane's Information Group, 2005a). The 1997 GSDF document also describes a theoretical Russian invasion of islands off of Hokkaido. A November 2004 JDA plan to defend southern remote islands off Kyushu and Okinawa from possible invasion by China is more specific, describing plans for fighters, submarines and destroyers based in western Japan to respond, block and repel the aggressors. See Kyodo News, 2005, cited in Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 54.

for the first time, between the GSDF Western Army Regiment and US Marine Corps at Camp Pendleton between January and February, 2006.²⁸⁰

Japan's Alliances and Partnerships

Japan's overall diplomacy during the Koizumi years indicated a shift from the previous strategy of relying mostly on the US alliance for security protection and engaging China for economic reasons in hopes of causing it to be more amenable to Japanese and US interests. While Japan continued to rely on the US for security, it also deepened military and strategic cooperation with other states in the region—namely Australia, India and nations in Southeast Asia. Yet, as evidence of complex and multifaceted bilateral relations, the expansion of Tokyo's relations occurred simultaneously with continued engagement of Beijing.

Alliance with the US

Since 2001, Japan has deepened its embrace of the US and developed more strategic relations with other countries in the region. Through the joint US-Japan Security Consultative Committee (SCC), both countries have forged closer cooperation on a number of strategic military issues. The 2005 joint statements of the SCC are unprecedented in terms of Japan agreeing to language stating concern over peace and security in the Taiwan Strait, as this hints at the fact that Taiwan is within the

²⁸⁰ Japan Defense Agency, 2006, Reference 42, p. 506. The actual number of exercises that have taken place during the Koizumi era to train for invasions of offshore Japanese islands is probably higher than official figures of combat exercises reported by the JDA. According to Medeiros et. al, this is because of concern within the Japanese government that overt military training, even with China not openly named as the adversary the exercises are intended against, would raise political tensions between Japan and China (Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 54). For example, some exercises to defend against invasion of offshore islands have therefore been labeled as “disaster relief” training. A September 2004 simulated SDF response to a magnitude 7 earthquake on Ishigaki Island (Okinawa Prefecture, Ryuku Island chain) involved flyovers by F-4 fighters, establishment of forward communications bases on two nearby islands, and the landing of a platoon of GSDF troops transported by LST Osumi (Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 54).

geographical boundaries of “areas surrounding Japan,” as stated in the 1997 Guidelines for Japan-US Defense Cooperation.²⁸¹

Strengthening Regional Ties

As China’s comprehensive power and security threat has increased over time, Japan also responded in kind by strengthening its security and political ties with other regional powers in addition to the US during this period—“more actively than at any time since World War II.”²⁸² Though seeds were sown for some of these ties before Koizumi, Japan increased its efforts in building strategic ties with other liberal democracies in the region, especially with India and Australia, since 2001.

Initial contact, established during the Obuchi and Mori administrations, focused on security cooperation between Tokyo and New Delhi. Relations were bolstered by Indian Prime Minister Vajpayee’s visit to Japan in December 2001, where the two prime ministers agreed to high-level dialogues and security consultations.²⁸³ These gains were followed by Japan’s decision to resume foreign aid to India in 2003, which had been suspended because of India’s nuclear weapons tests in 1998.²⁸⁴ Engagement reached a crescendo in 2005 during Koizumi’s visit to New Delhi, with Koizumi and his counterpart, Prime Minister Manmohan Singh, signing an “Eight-fold Initiative for

²⁸¹ The language of the February 19, 2005 statement reads: “In the region, common strategic objectives include: Encourage the peaceful resolution of issues concerning the Taiwan Strait through dialogue.” See Item #10, Ministry of Foreign Affairs, 2005a. However, it is worth noting that the 2005 statement has not been supplemented by an official statement that Japan would provide military support to U.S. forces against China over a Taiwan contingency. Part of this equivocation is likely strategic. Just as the US had maintained a certain degree of strategic ambiguity in not specifying the exact terms under which it would intervene in a conflict between Taiwan and China, Japan was likely practicing the same strategy. But another, and perhaps the major, reason behind Japan’s equivocation is due to continued disagreements within the policy elite as to the extent Japan should align with the US against China. To the extent that policy disagreements exist among senior officials of all countries, what Japan is going through is normal. However, the divisions that exist within the policy elite in Japan are particularly large.

²⁸² Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 45.

²⁸³ Ministry of Foreign Affairs, 2008a.

²⁸⁴ Ministry of Foreign Affairs, 2003b.

Strengthening Japan-India Global Partnership” to, among other goals, deepen security cooperation and economic engagement.²⁸⁵

Strategic ties with Australia took hold alongside the US when a Trilateral Security Dialogue (TSD) involving Australia, Japan and the US was launched in 2002.²⁸⁶ Initially involving exchanges only at the senior officials level, the TSD was elevated to the ministerial level in 2006. Stressing commonalities of being longstanding democracies, the three nations pledged to deepen their mutual security ties.²⁸⁷

Mixed Diplomatic Signals toward China

In the eyes of the official, consensus view of the Japanese government, the economic rise of China was still welcomed by Tokyo. The December 2005 statement by then Foreign Minister Taro Aso, that "the rise of China is something we have been eagerly waiting for,"²⁸⁸ is an example of this policy stance. However, there were increasing indications of dissenting viewpoints. In December 2005, Seiji Maehara, the president of Japan's largest opposition party, the Democratic Party of Japan, had attempted to make his position that China was a threat the official position of the DPJ.²⁸⁹

Ambiguous views of China were also evident in actual policy. For example, in establishing the inaugural East Asia Summit in 2005, a regional grouping designed to promote cooperation, Japan was able to counter China's preference on restricting participation to just the ASEAN-Plus-Three (APT) countries (Japan, Korea, China), and negotiated the inclusion of Australia, India and New

²⁸⁵ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 43. The language of the agreement can be found at Ministry of Foreign Affairs, 2005b.

²⁸⁶ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 44.

²⁸⁷ US Department of State, 2006. The relevant statement reads: "As longstanding democracies and developed economies, our three countries have a common cause in working to maintain stability and security globally with a particular focus on the Asia-Pacific region. This meeting was a significant step in intensifying the strategic dialogue between our countries and reflects the importance we attach to greater trilateral cooperation in addressing contemporary security issues. This cooperation will complement the strong security relationships that each of our three countries has established."

²⁸⁸ Aso, 2005, Przystup, 2006.

²⁸⁹ Japan Economic Newswire, 2006.

Zealand to balance against Chinese influence.²⁹⁰ Yet, this action aimed at attenuating China's influence was counter-balanced by Japan's continued interest in deepening ties with China by forging a strategic dialogue: a Japan-People's Republic of China comprehensive dialogue was held on May 13-14 in 2005, and involved meetings at the vice-ministerial level.²⁹¹

Mixed signals and views as to how Japan should define its relationship with China came from Prime Minister Koizumi himself. While Koizumi understood the importance of strong ties with Beijing, he, reflecting the sentiments of some Japanese, also envisioned a Japan that would be less bound by collective guilt and indecisiveness over history, and more able to assert a normal degree of national pride. To this end, he saw his visits to the controversial Yasukuni shrine—in both personal and official capacities—as an important right of Japanese to observe their cultural and religious traditions. As a Shinto shrine, Yasukuni honors the war dead, but did not become controversial until the spirits of Class A war criminals—those who had been convicted for war crimes during Imperial Japan's involvement in World War II—were enshrined in 1978.

Because of widespread perceptions in many Asian countries—particularly China and Korea—that Japan had not fully or sincerely apologized for the atrocities it committed during World War II, Koizumi's visits to Yasukuni became a symbol of Japan's refusal to squarely face its militaristic past, and its potential to remilitarize in the future. While previous prime ministers have visited Yasukuni, they have done so only in a personal capacity, and only once.²⁹² Koizumi's six visits to the shrine while serving as prime minister elicited strong diplomatic protests from China and Korea, and caused palatable damage to Tokyo's relations with Beijing.²⁹³

2. Japan's Economic Policy Response to China – 2001 to 2006

²⁹⁰ Mochizuki, 2007a, p. 757.

²⁹¹ National Institute for Defense Studies, 2006, p. 113-114, cited in Mochizuki, 2007a, p. 755.

²⁹² In 1985, Nakasone Yasuhiro was the first prime minister to visit in an official capacity since WWII. Prime Minister Hashimoto Ryutaro also made a personal visit in 1996. See BBC News, 2006.

²⁹³ Then Chinese Vice-Premier Wu Yi cancelled talks with Koizumi as a protest of his Yasukuni visits. See BBC News, 2005a. For more on Asian anger with Koizumi's visits, see BBC News, 2003.

Japan's economic policy stance to China fluctuated in concert with evolving elite views on China's long term utility as an enabler of Japanese economic growth, and viability as an economic partner. Trade with and investment in China exploded during this period: Japanese exports to China (including Hong Kong) as a percentage of its total exports rose from 13.5% in 2001 to 20.0% in 2006; as a portion of Japan's GDP, trade with China grew from accounting for 2.8% in 2001 to 5.7% in 2006;²⁹⁴ both are indicators of increasing trade dependency on China. As of 2006, China was Japan's top investment destination in Asia, and, after the US and Netherlands, the third largest destination in the world.²⁹⁵ See Figure 2.5 and 2.6, below.

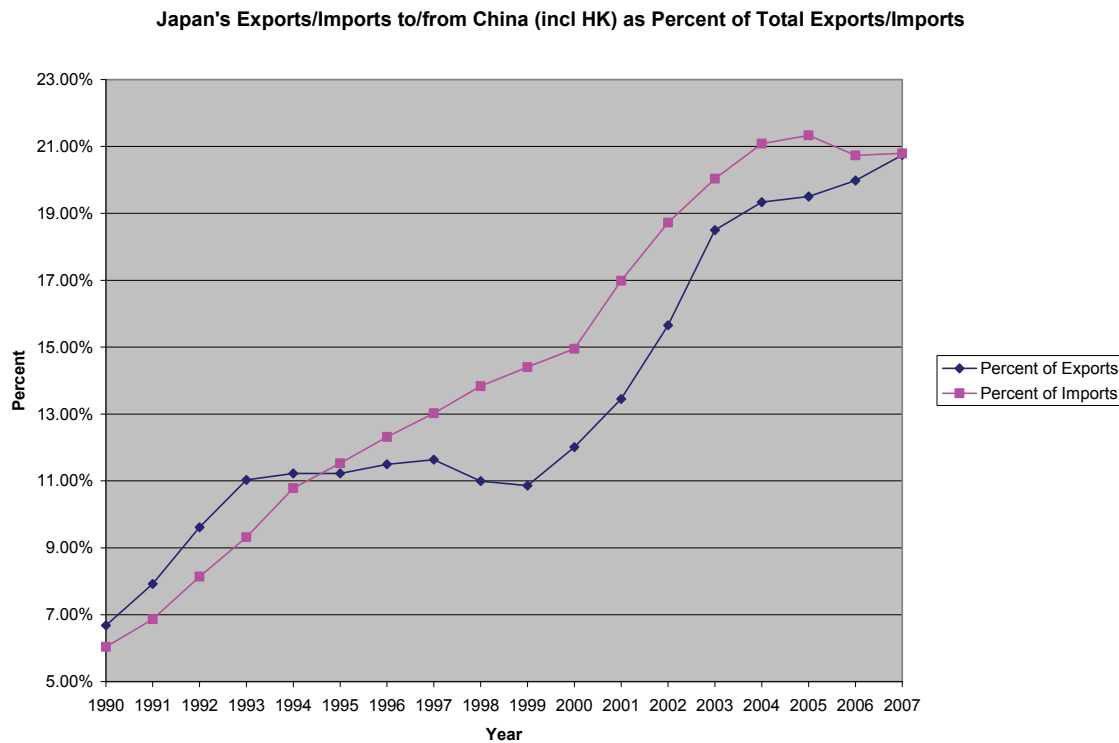


FIGURE 2.5
Source: CEIC Data

²⁹⁴ Author's calculations.

²⁹⁵ Japan External Trade Organization, 2008.

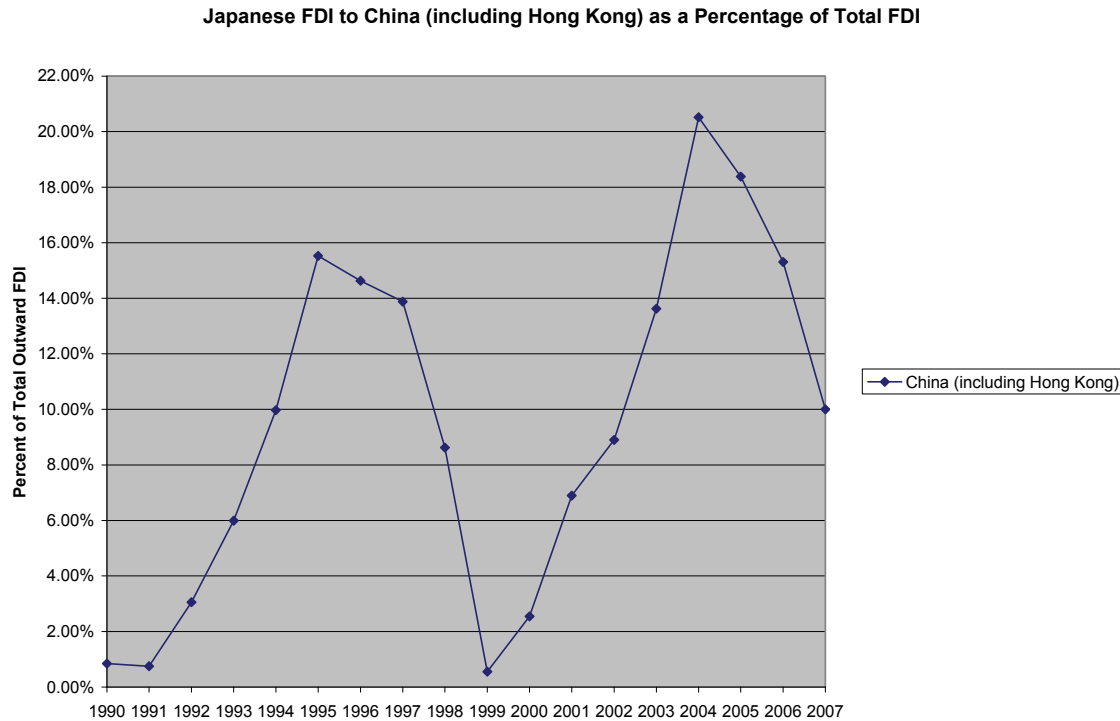


FIGURE 2.6
Source: JETRO²⁹⁶

Efforts to encourage trade with China continued during the Koizumi years, but with a degree of hesitation not seen during the 1990s. For example, China and Japan signed the sixth China-Japan Long-Term Trade Agreement in December 2005, providing a framework for bilateral trade exchanges between 2006 and 2010.²⁹⁷ The Chairman of JETRO stated in a 2006 speech that Japan should encourage its small and medium-sized enterprises (SMEs) to invest in China.²⁹⁸ In the same speech, he stressed the importance that Japan and China conclude a bilateral investment agreement. Yet this, and other actions to encourage commercial activity in China, were matched by concerns as well during and after the Koizumi years.²⁹⁹ The Ministry of Economy, Trade and Investment (METI)

²⁹⁶ Ibid. JETRO notes that there is no strict data continuity before 1995 because of changing definitions of FDI. JETRO's definition of FDI to the world, or total FDI, does not necessarily include all countries because some countries do not fall into the regions under which the data is organized.

²⁹⁷ Xinhua News Agency, 2005a.

²⁹⁸ Watanabe, 2006, p. 5. In the same speech, Chairman Watanabe cited the increasingly complementary relationship between Chinese and Japanese economies.

²⁹⁹ In response to China's explosive economic development in the 1990s, Japanese economic planners began to reconsider earlier strategies of concentrating on engaging the Chinese economy.

expressed varying degrees of concern about Japan's economic engagement of and reliance on China.³⁰⁰

To diversify Japan's external enablers of growth, Japanese economic leaders sought to encourage commercial ties with nations in addition to China. The Chairman of the official Japan External Trade Organization (JETRO), Watanabe Osamu, promoted a "China-Plus-One" strategy, whereby companies with significant investments in China should diversify in at least one other location.³⁰¹ Development of markets in Southeast Asia was given particular emphasis as well.³⁰²

Accordingly, Japan diversified economic and commercial relations with other nations during the Koizumi years by signing Economic Partnership Agreements (EPA) and BITs. These actions were rooted in Japan's strategy of using economic tools and diplomacy (in the form of ODA) to create an international environment favorable to not only Tokyo's economic interests, but political and diplomatic ones as well.³⁰³ To this end, Japan signed a total of four EPAs between 2001 and 2006, and two BITs.³⁰⁴

Reflecting both China's economic rise, and elite concerns about Japanese ODA indirectly subsidizing PRC military growth, the Japanese government began steady reductions in ODA to China—a pillar

³⁰⁰ Language in the METI White Paper of 2001 stated the obvious, highlighting China's rapid economic growth and increasing competitiveness in technologically-oriented industries. However, the 2001 METI White Paper also hinted at Japanese concern over loss of its role as East-Asia's leading economy. In commenting on China's rapidly growing export competitiveness, it states that "...East Asia is beginning to shift away from the flying-geese development pattern to a new pattern." This comment is significant in that since the Imperial era, Japan's leaders have conceived of Japan's role as the lead-geese in the flying-geese pattern of economic development. This concept continued to drive Japanese leaders' thinking in the post-war era. During Japan's economic boom of the 1970s and 1980s, its leaders thought of Japan as serving this role. Ministry of Economy Trade and Industry, 2001, Chapter I. Subsequent government documents revealed varying degrees of concern about Japan's economic engagement and reliance on China. METI's 2005 White Paper cited risks of China's overheating economy, but at the same time, mentioned concerns about other economic pitfalls—such as the US' twin deficits. Ministry of Economy Trade and Industry, 2005b, Chapter 1.

³⁰¹ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 37.

³⁰² Ibid, p. 37. Yet at no time was investment in China expressly discouraged.

³⁰³ Ministry of Economy Trade and Industry, 2005a, p. 4. They were also consistent with plans to steer Japan towards a "twin engine" economic growth strategy emphasizing both manufacturing and services (Ministry of Economy Trade and Industry, 2006).

³⁰⁴ Ministry of Economy Trade and Industry, 2008. Japan signed EPAs with the Philippines, Malaysia, Mexico and Singapore. Japan signed two BITs: Vietnam (2003), and Korea (2002).

of bilateral economic ties.³⁰⁵ There was also widespread sentiment, as reflected in newspapers, of the need to reorient the China portion of the ODA program.³⁰⁶ On March 13, 2003 Japan announced a 25% reduction in ODA assistance for China.³⁰⁷ And 2004 witnessed the third consecutive year of ODA reduction to China, with ¥20 billion cut from the China ODA account.³⁰⁸

Despite these decreases in ODA disbursements to China, such transfers to China, as a percentage of total Japanese ODA, actually increased during the first part of the 21st century, with ODA to China as a percentage of total ODA doubling between 2000 and 2004.³⁰⁹ (See Figure 2.7, below) However, since 2004, ODA to China as a percent of total ODA fell by over 50%. This trend more accurately describes the long-term intentions of the Japanese leadership and elites in reducing ODA to China. During the Koizumi premiership, Tokyo was set to terminate official loans to Beijing by the time of the 2008 Olympics, but had plans to continue with grant aid and technical assistance beyond 2008.³¹⁰

Increasing allocation of ODA funds to countries surrounding China indicate their rising strategic value to Japanese policy elite, and unease over the growing Chinese threat. In 2006, ODA funds were used for the first time by the Coast Guard to fund weapons transfers to Southeast Asia.³¹¹ That ODA is a diplomatic tool which correlates with Japan's strategic objectives can be seen by the fact

³⁰⁵ Thought leaders such as Aoyama University professor Amako Satoshi noted widespread concern that Japanese ODA policy needed review. He stated this in October 2000, prior to Chinese Premier Zhu Rongji's visit (Przystup, 2001a). And by 2002, the Japanese government made the landmark link between future ODA and China's military rise explicit when Foreign Minister Kawaguchi Yoriko, in both a July 28 Fuji TV interview, and with China's Vice Premier Qian Qichen, noted that without transparency in PRC's military program, continuing ODA would be difficult (Przystup, 2002c). Przystup reported that overall ODA disbursements for the PRC in 2001 were 17% lower than in 2000 (Przystup, 2002b).

³⁰⁶ Przystup, 2002a.

³⁰⁷ Przystup, 2003.

³⁰⁸ Przystup, 2004.

³⁰⁹ This suggests multiple explanations: that many in the government still see China as an economic opportunity worthy of Japanese support; that the increase in percentage disbursements to China up to 2004 was simply due to the timing of disbursements to China; that the increase in proportion of ODA to China between 2000 and 2004 was due to the fact that ODA to China was eventually going to be terminated.

³¹⁰ Japan Economic Newswire, 2007.

³¹¹ Samuels, 2007, p. 106.

that as of 2006, India was the largest recipient of ODA—a time when Tokyo and New Delhi’s relations were growing.³¹²



FIGURE 2.7
Source: Ministry of Foreign Affairs, Japan, various years³¹³

Export promotion to China was an integral part of Japan’s economic and diplomatic strategy, and was also implemented through the instrument of export credits. Between 2001 and 2006, granting of export credits to China exhibited neither a steady increase nor decrease. The successor agency to the JEXIM, the Japan Bank for International Cooperation, continued to fund exports of Japanese goods to, and other development projects in, China. As shown in FIGURE 2.8, funding to China as a percentage of total commitments fluctuated during the Koizumi years.

³¹² See item 16 in Ministry of Foreign Affairs, 2006b.

³¹³ Ministry of Foreign Affairs of Japan, various years.

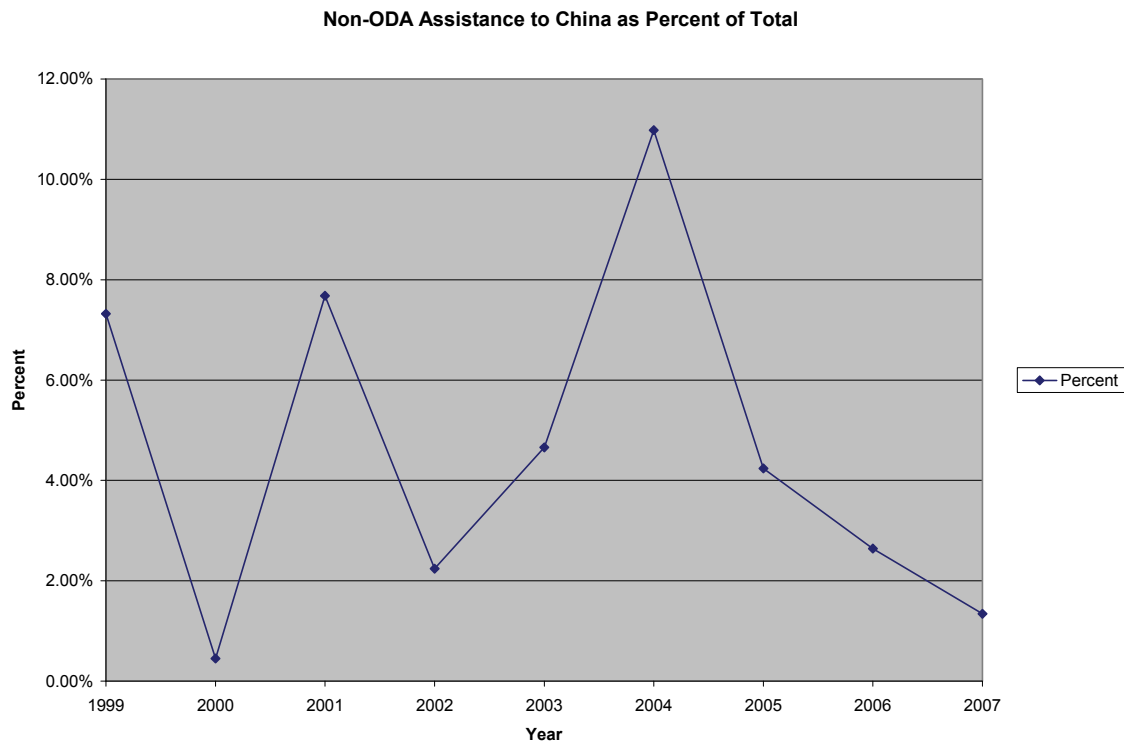


FIGURE 2.8
JBIC International Financial Operations Commitments to China as Percent of World Total³¹⁴
Source: JBIC Annual Reports, 2000 - 2008

Japan also leveraged its leadership position of the Asian Development Bank to facilitate trade with China. Japan continued to direct Ordinary Capital Resources funds and JSF grants to China, although JSF grants ceased in 2004. As shown in FIGURE 2.4, ADB funds to China as a percent of total funds increased, then decreased, during the Koizumi years.

3. Variables Affecting Japan's Response to China: 2001 – 2006

³¹⁴ International Financial Operations are designed to “promote Japanese exports, imports, economic activities overseas and contribute to the stability of the international financial order.” Funding includes export loans, untied aid, overseas investment loans, among others. See Japan Bank for International Cooperation, 2008, p. 50. Additional data obtained from Japan Bank for International Cooperation, 2006, Japan Bank for International Cooperation, 2004, Japan Bank for International Cooperation, 2002, and Japan Bank for International Cooperation, 2000.

The Role of Regional Threats in Shaping Japan's Policies towards China

Disquiet from North Korea heightened Japan's sense of insecurity, contributing with rising threats from China to qualitative military improvements in Japan. The North Korea menace continued to grow after 2001, with an unidentified vessel entering Japan's EEZ in December 2001, necessitating the Coast Guard to sink what was presumed to be a North Korean spy ship.³¹⁵ When it was revealed in 2002 that North Korea was secretly enriching uranium, in violation of the 1994 Agreed Framework (which ended the first nuclear crisis), Japan's distrust of the DPRK regime, and sense of security, were further eroded.³¹⁶ Missile test-launches into the Sea of Japan in February and March of 2003 were followed by multiple firings of missiles, including the long-range Taepodong-2, in July 2006, and a nuclear test in October of the same year.³¹⁷

The Roles of China and the US in Shaping Japan's Response to China

The extent to which China posed a security and military threat rose between 2001 and 2006. Japan's comprehensive military modernization and tremendous growth in military spending—averaging annual growth rates of 14%—alarmed many neighbors, especially Japan.³¹⁸ Violations of Japanese territory by the PLA during this period were more grave to the degree they demonstrated China's ambitions to become the dominant regional power. The November 2004 incident of a PRC nuclear powered submarine transiting Japan's territorial waters without surfacing (a violation of international law) prompted strong protests from the Japanese government.³¹⁹

³¹⁵ See Nanto, 2003 and Jane's Information Group, 2004a. In the December 2001 spy-ship incident, the North Korean vessel may have sunk itself to avoid capture.

³¹⁶ During Prime Minister Koizumi's visit to Pyongyang in September 2002, one month prior to the revelation of covert North Korean uranium enrichment, Kim Jong-Il admitted that North Korea had abducted Japanese citizens during the 1970s and 1980s.

³¹⁷ BBC News, 2007a.

³¹⁸ China's military expenditures between 2001 and 2006 increased at an average annual rate of 13.9%, providing financial fuel for the modernization of its forces. Author's calculations using SIPRI data, see: Stockholm International Peace Research Institute (SIPRI), 2009.

³¹⁹ Jane's Information Group, 2008a.

Incidents of Chinese research vessels surveying the seabed in Japan's EEZ without prior notification also continued during this period, as did flights of PLAAF fighters in the East China Sea.³²⁰ For example, there were 107 scrambles of ASDF fighters in FY 2005 to deal with Chinese military aircraft, more than eight times the number of scrambles of the previous year.³²¹ Disagreement with Beijing over territorial claims and drilling rights for natural gas in the East China Sea made Chinese incursions into Japan's EEZ particularly alarming.³²²

In terms of maritime power, the PLAN commissioned an unprecedented number of advanced submarines—at least 22 between 2001 and 2006, inclusive, with seven commissioned in 2006 alone.³²³ Strengthening of the PLAN's surface fleet capabilities include the introduction, in 2004, of the Luzhou class of destroyers which are outfitted with the Tombstone phased-array radar system—the Russian equivalent of an Aegis system—significantly increasing the PLAN's anti-air warfare capabilities.³²⁴ These vessels are likely based with China's North Sea Fleet.

The PRC's airpower capabilities grew significantly during this period as well. China has modernized its air force and introduced the fourth-generation J-10 multirole fighter in late 2006.³²⁵ In terms of its ballistic missile capabilities, there were an estimated 900 short range ballistic missiles (SRBMs) opposite the coast of Taiwan by October 2006, a quantity attained through increases of approximately 100 missiles per year since 2001.³²⁶ Since 2002, the PLA has developed variants of the CSS-6 that enable attacks against Okinawa when deployed along China's coastline.³²⁷

³²⁰ For example, in 2006, there were 15 incursions of PRC 'research vessels' into JP's EEZ (Drifte, 2003, p. 57).

³²¹ The Daily Yomiuri, 2006. The Japanese fiscal year begins in April.

³²² China began to erect a drilling platform in 2003 and most likely began extraction in 2005, and also dispatched warships in the drilling area as a show of force. While these activities were in Chinese territory, the Japanese were concerned that extraction could have involved resources that belonged to them. Bilateral negotiations to resolve the dispute began in 2004, but were deadlocked during the Koizumi years. For background information, see Faiola, 2005 and BBC News, 2005b. For partial timeline of negotiations, see Energy Information Administration, 2007.

³²³ See Table 1, p. 13, in O'Rourke, 2008. Advanced submarines do not include the Ming class, but are the Song, Yuan, Kilo, Shang and Jin types.

³²⁴ Jane's Information Group, 2008l. The first of this class was launched in 2004. Two vessels were built, with the second commissioned in 2007.

³²⁵ It was reported that 12 J-10s were deployed at a base in Zhejiang Province (eastern China, near Shanghai) in January, 2007. See Jane's Information Group, 2008m.

³²⁶ Office of the Secretary of Defense, 2007, p. 3.

³²⁷ Office of the Secretary of Defense, 2003, p. 5.

Statements and other actions made by China between 2001 and 2006 suggest that these newfound weapons are geared primarily towards a Taiwan contingency—a conflict that would likely involve US military involvement with an undeclared level of Japanese support. Most relevant to the security situation surrounding the Taiwan Straits and Ryuku Islands was China's Anti-Secession Law aimed at preventing Taiwan independence, but generally seen to be a destabilizing act.³²⁸

Combined with the more onerous threat environment, US desires for Japan to assume a greater share of the bilateral alliance's defense burden, and staunch US support for Japan's military modernization efforts, contributed to Tokyo's closer embrace of Washington.³²⁹ While Koizumi was behind much of Japan's drive to deepen defense and security cooperation with the US, Washington had desired such an increase in Japanese commitments for years, and its receptivity facilitated Japan's defense and security alignment with the US.

Domestic Influences on Japan's China Policy — 2001-2006

Prime Minister Koizumi's election was made possible in part by widespread frustration with the 1955 System of politics—the system which featured close ties among the LDP, bureaucrats and businessmen, wrapped around the idea of economic security and the Yoshida Doctrine. Koizumi rode this wave of discontent, dismantled the 1955 System, and promoted broader thinking beyond defining security in strictly economic terms as embodied in the Yoshida Doctrine. By so doing,

³²⁸ National People's Congress-People's Republic of China, 2005. Of particular concern is Article 8 of the law, stating the right of the PRC to use military means to prevent Taiwan independence. Article 8 reads: In the event that the "Taiwan independence" secessionist forces should act under any name or by any means to cause the fact of Taiwan's secession from China, or that major incidents entailing Taiwan's secession from China should occur, or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China's sovereignty and territorial integrity. The State Council and the Central Military Commission shall decide on and execute the non-peaceful means and other necessary measures as provided for in the preceding paragraph and shall promptly report to the Standing Committee of the National People's Congress (National People's Congress-People's Republic of China, 2005).

³²⁹ One notable example of this type of US encouragement came from then US Deputy Secretary of State Richard Armitage, who, after the September 11, 2001 terrorist attacks, told then Japanese Ambassador to the US, Shunji Yanai, that Japan had to "show the flag" and support the US in the war on terror. See The Japan Times, 2001.

Koizumi had also taken Japan on a path to become less of an Asian developmental state, and more of a *laissez-faire* one. Nonetheless, during this period, Japan had not entirely shed all elements of the Asian developmental state, and can best be described as a country still in transition between the Asian developmental and *laissez faire* state types.

Koizumi buried the 1955 System through implementing administrative reforms which had been authorized by his predecessors, the objective of which was to allow for a more decisive means of policymaking that was less encumbered by bureaucratic and other rent-seeking interests. Accordingly, he strengthened the power of the Prime Minister's Office, *kantei*, giving politicians more power over bureaucrats in formulating policy. During his premiership, Koizumi implemented other policies to strengthen political leadership of the *kantei*, increasing the policy staff of the Cabinet Secretariat so that by 2004, the Cabinet Secretariat had 15 offices and 700 staff—in comparison with under 200 in 1993.³³⁰

Koizumi's first major foreign policy accomplishment—enabling the passing of Diet legislation authorizing Japanese SDF refueling of U.S. vessels for the attack against Afghanistan in 2001—demonstrated a new, more decisive form of foreign policy which favored top-level, elected politicians.³³¹ In addition, Koizumi was able take advantage of a weakened MOFA, which had previously dominated foreign policymaking—and especially China policy. During this period, numerous scandals by MOFA officials, and protocol gaffes by Foreign Minister Tanaka Makiko, led to the diminished credibility and influence of MOFA, increasing the Cabinet's sway over foreign policy.³³² The weakened MOFA relative to a strengthened *kantei* not only facilitated Koizumi's 2001 efforts to pass the anti-terrorism legislation, but subsequent legislation in 2003 which legalized Japan's more muscular and assertive security stance.³³³

³³⁰ Samuels, 2007, p. 74.

³³¹ Koizumi was able to accomplish this legislative feat by bypassing the *zoku*, who were members of the LDP's Policy Research Council and normally the place to begin when considering legislation (Shinoda, 2003, p. 30).

³³² Corruption scandals by MOFA officials were well reported by the media, on a daily basis at times. Shinoda, 2007, p. 83. Examples of news media reports on MOFA corruption are: The Daily Yomiuri, 2001, The Nikkei Weekly, 2001.

³³³ While part of Koizumi's ability to short-circuit the policy process simply involved personal creativity and charisma, and was not the result of institutionalized structural changes, the unraveling of the 1955 system in prior years greatly increased Koizumi's political operating space. Previous prime ministers were often beholden

Koizumi's reforms to wrest policy control away from the bureaucrats did not affect all ministries equally, and actually benefitted the JDA. He raised the profile of the JDA in managing Tokyo's security affairs, which up to the mid-2000s had been managed chiefly by MOFA, and elevated senior military officers within the JDA so that they were equivalent in rank to councillors (*sanjikan*)—influential bureaucrats within the JDA.³³⁴ By 2006, Koizumi had doubled (relative to 2005) the number of officials seconded from the JDA in the Cabinet Office, and established three deputy cabinet secretary posts, with one each allotted to MOFA, MOF, and the JDA.³³⁵ For the first time, the JDA “was on an equal footing with MOFA”; and it was the JDA that served as the lead negotiator with the U.S. for the 2006 “force realignment” talks.³³⁶ The net effect of Koizumi's reforms was to further reduce Japan's definition of security in strictly economic terms—and sounding the Yoshida Doctrine's death-knell.

During this period, changes in political climate had also transpired, leading to subtle shifts in the definition of security among elites. While previous commentary by foreign ministers and prime ministers had generally emphasized economic and other pragmatic subjects, there were increasing indicators that Japan viewed itself as an ideological leader desiring to stimulate alliances of democratic nations in the region.³³⁷

In parallel with structural reforms which strengthened the role of the politicians over the bureaucrats, and heightened the influence of the JDA, Koizumi sought to weaken another cornerstone of Japan's Asian developmental state apparatus—inbreeding between bureaucrats and business interests. While his efforts appeared to have limited success, Koizumi aimed to eradicate the practice of *amakudari*

to LDP factions; Koizumi was the first LDP president and prime minister to be selected outside traditional factional power struggles, and hence was less beholden to any particular one (Shinoda, 2003, p. 23).

³³⁴ Samuels, 2007, p. 76.

³³⁵ Ibid, p. 75.

³³⁶ Ibid, p. 75.

³³⁷ Former foreign minister Taro Aso was the public face of such thinking. See, for example, Aso, 2005, and Aso, 2006.

(descent from heaven), whereby retired government bureaucrats took jobs in public-sector or semi-private, government affiliated businesses.³³⁸

A relic of Japan's Asian developmental state mentality—a protected economy that was wary of outside foreign investment for nationalistic reasons—also came under attack during the Koizumi administration.³³⁹ In 2003, Koizumi pledged to double the cumulative levels (stock) of foreign direct investment in Japan.³⁴⁰

ASSESSING JAPAN'S RESPONSE TO CHINA DURING THE KOIZUMI ERA AGAINST STRUCTURAL REALISM, 2001-2006

For the years 2001-2006, do explanations grounded in structural realism offer a convincing explanation of Japan's policy stances towards China? This section reviews material in the above paragraphs against the predictions of structural realism, and concludes that overall, structural realism does fairly well at explaining Japan's political and military responses to China, but less well at explaining Japan's economic responses to China.

According to realist principles, external security threats serve as the strongest motivator of state behavior. During this period, is there evidence to suggest that China was a threat to Japan? Were there points of conflict between the two powers? All indications during this period point to rising Chinese threats confronting Japan. Frequent incursions of Japanese airspace and territorial waters, and tension over historical matters resulted in higher levels of bilateral conflict.

³³⁸ These bureaucrats would often retire at a young age (50 yrs), and once in their new positions, would obtain favors for their new employers from the former government ministries where they worked. For more on *amakudari* and Koizumi's campaign to eradicate the practice, see: The Daily Yomiuri, 2004. For an in-depth study of *amakudari*, see: Colignon and Usui, 2003.

³³⁹ For more background, see Jitsu, 2003,

³⁴⁰ In a speech to the Diet on January 31, 2003, Koizumi noted: "Rather than seeing foreign investment as a threat, we will take measures to present Japan as an attractive destination for foreign firms in the aim of doubling the cumulative amount of investment in five years." (Koizumi, 2003).

If Japan's policy response to China was consistent with the predictions of structural realism, then one would expect to see a general pattern of behavior in response to rising threats from China and North Korea during this period: external balancing, with Tokyo forging new alliances and security arrangements and embracing dominant allies, such as the US; internal balancing, by reconfiguring and strengthening force structures to deter or defeat a primary threat, and by allocating more funds to defense; regulation of economic activities with the dominant threat, by limiting the scope of economic engagement with China, and subordinating economic interests in favor of military ones.

Structural realism explains Japan's military acquisitions and force structure during the Koizumi premiership. China posed the greatest threat to Japan's southwestern Ryuku islands and Okinawa Prefecture, and Japan's force deployments were designed to counter both the geographical scope of this threat, and Chinese capabilities. Conveniently for Japanese strategists, much of the force planning designed to counter DPRK ballistic missiles were also appropriate for confronting the batteries of PRC ballistic missiles targeted on Okinawa Prefecture.

The creation of MSDF and GSDF special forces units are strong indicators of planning against contingencies involving Chinese invasions of Japan's offshore islands in the Ryukus chain, and both Chinese and North Korean incursions into Japanese territory. Upgrades of existing equipment and acquisitions of new vessels and submarines, designed to enhance Japanese control over airspace and waters surrounding Japan, also indicate increased preparations against possible PRC threats against Japan's offshore islands. All MSDF anti-submarine efforts in recent years should be viewed primarily as balancing against China since no other plausible threat in the region possesses anywhere near China's level of underwater sophistication. Of particular note is the Hyuga class DDH, the aircraft-carrier like destroyer that, given modifications, might be able to accommodate V/STOL fixed-wing aircraft. While this type of vessel would be useful for disaster relief purposes or North Korean contingencies involving incursions of spy ships into Japanese waters, the size and capabilities of the Hyuga suggest serious plans to counter not only PRC invasions of offshore islands, but also to assist the US in a Taiwan Straits or other regional conflict. Procurement of the KC-767 aerial refueling tanker by the ASDF, and interests in acquiring advanced fifth-generation fighters also suggest efforts to balance against China's increasing air-power capabilities.

Military exercises with the US to train specifically for defending Japan's offshore islands provide another indicator of Japan's effort to balance against Chinese threats. Other military exercises, such as testing of BMD systems with the US, while explicitly aimed only against North Korean ballistic missile threats, cannot be disregarded as preparations against the PLA's ballistic missiles since a functional BMD system would be help defend Japan's Ryuku island chain.

Japan's military balancing and defense plans against China-related contingencies come into sharper focus in official JDA and MOD documents during this period. To be sure, Tokyo's Defense White Papers and the FY2005 NDPG and MTDP describe, with utmost clarity, other threats, such as those posed by North Korea. Yet while North Korea has been openly mentioned as a threat in public, official JDA documents for many more years than has China, and in stronger terms as well, it is only since the Koizumi years that language in the Defense White Papers has become much more specific and critical of China's military buildup.

Consistent with a structural realist explanation, Tokyo's embrace of its alliance with Washington became stronger after 2001, whereby the objectives of the alliance were expanded to include an emphasis on deterring China's ambitions in the areas surrounding Taiwan. The language of the 2005 US-Japan SCC (Two-plus-Two) hinted that Japan's collective defense obligations would be activated by any conflict in the Taiwan straits. Similarly, Japan's efforts to forge alliances with regional powers other than the US, particularly with India and Australia, are further examples of efforts to strengthen ties with like-minded, regional powers, and in accordance with the realist logic of external balancing.

While much of what has occurred in terms of Japan's military deployments, acquisitions, publicly stated security objectives, and alliance behavior are explained by structural realism, it is also important to note what has *not* occurred. Under standard hypotheses of structural realism, one would expect a state faced with increasing external threats to increase military expenditures to meet these threats. That Japan has faced threats from North Korea, and growing threats from China, would suggest that military expenditures would certainly increase, either in absolute terms, or as a percentage of GDP, especially during the period after 2001. Surprisingly, Tokyo's military expenditures as a percentage of GDP remained flat, at just under 1%, between 1993 and 2006. (See

Figure 2.2) If measured using constant 2005 US dollars, its military expenditures between 2001 and 2006 actually decreased at an average annual rate of 0.05%.

While Japan's military deployments have reflected a shift towards deterring threats from China and North Korea, the timing of certain deployments poses additional puzzles. In the wake of China's military exercises in the Taiwan Straits during 1995 and 1996, and the passage of the PRC's Territorial Waters Act in 1992, structural realism would have predicted earlier discussions or plans to strengthen Japan's military presence at Naha on Okinawa. However, the plan to swap F-15Js from central Japan with the ageing F-4s at Naha was not decided upon until 2005, with the fighters not being relocated until 2008. The delay of such redeployments suggests that perhaps other factors are at play.

Under thinking consistent with realism, one would expect that if China had posed a threat to Japan, the latter would have embarked on efforts to restrict economic intercourse with the former. Japan would have also been expected to subordinate its economic interests in favor of enhancing its security and military posture vis-à-vis China. Realist logic would predict that the increase in Chinese threat would have led Japan to decrease its economic engagement with China. While Tokyo expressed increased hesitancy about its economic reliance on Beijing, and broadened its commercial relations with other states, its continued grant and loan activities to China are puzzling.

While elite governmental official attitudes towards ODA to China began to change during the 2000s, with reductions of ODA linked with China's military rise, actual disbursements of ODA to China as a percentage of total Japanese ODA increased from 2000 to 2004. In light of Beijing's double-digit increases in military spending from 2000 to 2006, Tokyo's financial assistance to a nation that poses a threat runs counter to both the explicit and implied principles of structural realism.

As Japan's exports to and imports from China (including Hong Kong) steadily increased from under 15% of its total trade in 2001 to over 20% in 2006, the government took no steps to restrict such activities, and continued to promote trade through trade missions and export credits via the JBIC. While Japan has imposed tariffs and limits on imports of certain Chinese products, these were made

not in the name of national security, but for purely trade dispute reasons under the multilateral trading rules set by the WTO.

Tokyo has encouraged further investment and economic ties with Asian nations other than Beijing through the establishment of numerous EPAs and BITs, but not at the expense of discouraging or restricting direct investment to China. And contrary to realist logic, official government statements continued to reflect the view that economic engagement of China is good for Japan, and, citing increasingly complementary economies, have encouraged further mutual engagement.

ASSESSING JAPAN'S RESPONSE TO CHINA AGAINST DOMESTIC GRAND STRATEGY EXPLANATIONS, 2001-2006

Domestic grand strategy theory purports to explain Japan's behavior towards China based on conceptions of security which are broader in scope than those under structural realism. Based on variation in state type, the more a state approaches the Asian developmental state ideal type, the more it is expected to subsume military/territorial security interests in favor of economic interests *if* the Asian state is economically strong relative to China. And the greater its developmental state characteristics, the greater its tendency to enmesh itself economically with China. Two questions then must be asked: What type of state was Japan during this period? What was Japan's economic strength relative to China?

During the 2001-2006 period, Japan made a stepwise drift towards the laissez-faire state type. In terms of ideation, Koizumi did not discard the importance of economic strength, but drastically expanded conceptions so that it was no longer taboo to embrace military strength. Structurally, Koizumi weakened collusive ties among the bureaucrats, LDP, and business leaders by ensuring the *kantei* had real powers over policymaking, and by attacking the practice of *amakudari*.

In terms of relative economic strength, Japan possessed an enormous lead over China if one considers GDP per capita on a purchasing power parity (PPP) basis. China narrowed the gap between 2001 and 2006, but by 2006, Japan's GDP per capita (PPP) was still approximately six times greater than

that of the PRC. Other surrogate indicators confirm Japan's technological and economic dominance. Japan spends more than two times its percent of its GDP on R&D than did China in 2006, and its researchers in R&D per million was six times higher. Japan's and China's economies were also trade complementary.³⁴¹

Domestic grand strategy would predict that in light of Japan's diminished Asian developmental state attributes, it would be more prone to be sensitive to military security threats from China, and more likely to have balanced against a rising China. Japan's military redeployments and acquisitions during the Koizumi era suggest a more decided and enduring move towards alignment against China, and are explained by domestic grand strategy theory. Domestic grand strategy theory also explains Tokyo's tighter embrace of Washington, and forging of ties with New Delhi and Canberra.

The sometimes ambiguous direction of Tokyo's economic diplomacy vis-à-vis Beijing—which is not adequately explained by structural realism or commercial pacifism—seems best explained by domestic factors given the transitional nature of Tokyo's Asian developmental state apparatus and diminishment of both the 1955 System and Yoshida Doctrine. Japan's decision to cease loan aid to China during the Koizumi years correlates with its domestic transition away from Asian developmental state status.

Although both the structural and ideological facets of Japan's Asian developmental state system withered during the 2000s, economic priorities still occupied an important space in Japan's foreign policy. Japanese elites' definition of security continued to include elements of economic security, and official governmental statements generally lauded and/or welcomed the rise of China.³⁴² These views account for that fact that Japan had decided to continue grant and technical assistance to China beyond 2008.³⁴³

³⁴¹ See Appendix, Figures A.1, A.2 and A.3.

³⁴² In the same speech where former foreign minister Aso outlined his vision of Japan becoming a thought leader, he welcomed the economic rise of China: "And the fact is that the rise of China is something that we have been eagerly waiting for. When you encounter a strong competitor, you are able to improve yourself. For that reason, we celebrate the rise of China and welcome it sincerely" (Aso, 2005).

³⁴³ Japan Economic Newswire, 2007.

Explanations based on domestic grand strategy are also consistent with Tokyo's continued economic engagement of Beijing—it did not attempt to restrict trade with Beijing, and continued to encourage investment there (albeit with investment elsewhere as well). The fact that Japan has not increased military spending above the 1% of GDP to balance against external threats in North Korea and China also accords with the domestic explanation—economic priorities seem to remain an important part of Tokyo's relationship with Beijing.

JAPAN'S RESPONSE TO CHINA SINCE THE KOIZUMI YEARS – 2006 TO 2008

1. Japan's Political and Security Response to China: 2006 to 2008

Military Budgets and Internal Balancing

During this era of external and domestic change, the forces of continuity continued to reign over Japan's military expenditures. As seen in Figure 2.2 above, defense expenditures remained stagnant, and have not exceeded 1% of GDP. Yet despite these financial constraints, the SDF continued to realign and position its forces to deter and defeat threats which are most likely to emanate from China and North Korea.

A snapshot of Japan's MSDF fleet suggests both a quantitative and qualitative emphasis on planning for contingencies emanating from China and the Korean Peninsula. Japan's overall surface fleet composition and orientation as of 2007 supports the argument that MSDF force planners were geared towards threats involving China or North Korea.³⁴⁴

³⁴⁴ Based on information obtained from various editions of Jane's Fighting Ships and Jane's Sentinel Security Assessment. See Jane's Information Group, 2008a, Jane's Information Group, 2008c, Jane's Information Group, 2008e, and Jane's Information Group, 2008f.

Internal balancing is also evident in the top modernization priorities of the JASDF, which include upgrading existing F-15Js and E-767 AWACS to improve reconnaissance and surveillance capabilities, and the acquisition of fifth-generation fighter jets.³⁴⁵

Military Exercises

Preparations to defend Japan's offshore islands against possible invasion continued, with explicitly combat exercises with the US conducted from January to February, 2007, between the GSDF Western Army 21st Infantry Regiment and the US 1st Marine Expeditionary Force, also at Camp Pendleton.³⁴⁶ Though not indicated in the official *Defense of Japan's* record of US-Japan exercises, one exercise in repelling an invasion of Japanese territory by Chinese forces was undertaken near Iwo Jima island in November 2006, involving the participation of US carrier Kitty Hawk.³⁴⁷

Language of Official Japanese Documents Pertaining to Defense and Security

Reprising the trend of Defense White Papers of earlier years, the 2007 and 2008 editions continued to criticize China's military expenditures. For the first time in 2007, the Defense White Paper specifically mentioned lack of Chinese military budget transparency in the overview section of the document. In the China section, there is a section devoted specifically to addressing China's lack of military transparency—another first. The 2008 *Defense of Japan* addresses China's military rise in similarly direct language, but adds language criticizing the unclearly stated intentions of the PLA, and concerns over the problematic decision-making mechanisms within the Chinese military.³⁴⁸

Japan's Alliances and Partnerships

³⁴⁵ Jane's Information Group, 2008h. Japan's top preference is to acquire or co-produce the US F-22, but Japan's request for data on the F-22 has been denied because of Congress' continued ban on overseas sales of the F-22. Other options being considered as of the end of 2008 include the Eurofighter Typhoon, an upgraded F-18, or the F-35(Hackett, 2008, p. 362).

³⁴⁶ Japan Defense Agency, 2007, Reference 43, p. 555. The 2007 exercise was not labeled explicitly as training in response to invasions of offshore islands, and was instead referred to as "training and exercises for tactical and combat skills for diverse contingencies." However, it is safe to assume that diverse contingencies includes invasion of offshore islands.

³⁴⁷ See Ibid, Reference 43, p. 555. See also Samuels, 2007, p. 103, and Kyodo News, 2006a, cited by Samuels.

³⁴⁸ Ministry of Defense, 2008, p. 50.

Following in the footsteps of Koizumi, Japan under Prime Minister Abe Shinzo deepened its cooperation with the US, with Abe referring to the alliance with the US as “irreplaceable and invaluable.”³⁴⁹ However, policy debates and equivocation among Japan’s elite continued concerning the extent of Japan’s military commitments with the US. For example, when Takamizawa Nobusige, Director General of the Defense Policy Bureau, Ministry of Defense, met with the LDP’s Security Research Panel in March 2008, he stated that a Taiwan Straits contingency would directly affect Japan’s security, and would hence be considered as a contingency in “areas surrounding Japan.”³⁵⁰ However, he was forced to retract his statement upon returning to the Ministry of Defense. Minister of Defense Ishiba Shigeru clarified Takamizawa’s statements the next day and repeated the official Japanese stance that a “regional contingency” does not target any specific region.³⁵¹ When asked to comment about the Takamizawa remarks, Chief Cabinet Secretary Nobutaka Machimura also repeated the official stance that “areas surrounding Japan” was not a geographical concept, but a situational one.³⁵²

Strengthening Regional Alliances

Continuing the trend of increasing ties with India, relations grew apace across all dimensions, with Prime Minister Singh visiting Japan in December 2006 to sign, with Prime Minister Abe, the “Joint Statement towards Japan-India Strategic and Global Partnership,” which included statements on enhancing defense and security cooperation.³⁵³ Strategic cooperation was further deepened after Prime Minister Abe’s visit to India in August 2007, where the two leaders signed another joint

³⁴⁹ Ministry of Foreign Affairs, 2007d.

³⁵⁰ Director General Takamizawa’s response to an LDP lawmaker asking whether rising military tension between China and Taiwan would be considered an emergency situation in areas surrounding Japan stated: “It’s not [merely] a matter of the Japan-U.S. security cooperation, but also a matter of Japan’s national security.” See *The Daily Yomiuri*, 2008.

³⁵¹ Przystup, 2008. Also, note that Ishiba did not criticize Takamizawa harshly, and simply said “There was wording that could have caused misunderstanding...But I don’t think at all there was a problem.” See *Japan Economic Newswire*, 2008.

³⁵² AFP, 2008.

³⁵³ The statement recognizes that the two nations have common interests in safeguarding sea lanes of communication and the integrity of their EEZs. See Ministry of Foreign Affairs, 2006b, esp. item 11.

statement which included further statements to enhance defense exchanges.³⁵⁴ In September 2007, the MSDF participated in the “Malabar 07-2” military exercises, hosted by India, but which include Australia, Japan, the US and Singapore as participants.³⁵⁵

Ties with Canberra within the framework of the Japan-Australia-US Trilateral Security Dialogue (TSD) also deepened during the post-Koizumi era, with goals of mutual cooperation and security capacity building reiterated in the June 2008 TSD meeting, which also emphasized the importance of enhancing military inter-operability in the region for disaster relief.³⁵⁶

Bilateral security cooperation between Japan and Australia has also developed outside of the TSD forum. After the conclusion of the “Japan-Australia Joint Declaration on Security Cooperation” (JDSC) in March 2007, the two countries held meetings with foreign and defense ministers (two-plus-two) June 2007.³⁵⁷ The JDSC was a watershed event in that it is the first such agreement signed by Tokyo to supplement its alliance with Washington.³⁵⁸ The statement issued at the two-plus-two dialogue took relations to a new level, with one sentence reading: “Both countries recognised each other as its indispensable partner in the region”³⁵⁹ A commitment was also made to expand military exchanges, and Australia invited Japan to observe the US-Australia “Talisman Sabre” military exercises.³⁶⁰

Diplomatic Signals Towards China

Koizumi’s departure as prime minister caused a dramatic shift in the tone and rhetoric of bilateral ties. China had refused to agree to summit meetings after Koizumi’s only summit visit to Beijing in 2001 because of his repeated visits to the Yasukuni shrine. Abe Shinzo visited China shortly after his election as prime minister to restore mutual trust in the relationship, a task which further aided by his

³⁵⁴ Ministry of Foreign Affairs, 2007a.

³⁵⁵ See Ministry of Foreign Affairs, 2008a and Bedi, 2007.

³⁵⁶ Ministry of Foreign Affairs, 2008b.

³⁵⁷ Ministry of Foreign Affairs, 2007c, for text of JDSC.

³⁵⁸ Karniol, 2007.

³⁵⁹ Ministry of Foreign Affairs, 2007b.

³⁶⁰ Karniol, 2007.

refraining from visiting the shrine. Fukuda Yasuo, Abe's successor, also helped maintain a positive rhetorical tone to the bilateral relationship by not visiting the shrine.

One major irritant in bilateral relations—the dispute over drilling rights to gas fields in the East China Sea—appeared to have neared resolution when Chinese president Hu Jintao and Fukuda agreed to make the East China Sea a sea of “peace, cooperation and friendship.”³⁶¹ Bilateral summit meetings which were frozen during most of the Koizumi era resumed with regularity, resulting in new invocations of deeper and comprehensive cooperation. The Hu-Fukuda summit in May 2008 culminated in the issuance of a joint statement to promote a “mutually beneficial relationship based on common strategic interests,” which included strengthening security cooperation and exchanges.³⁶²

2. Japan's Economic Policy Response to China – 2006 to 2008

The warm rhetorical backdrop to relations in the post-Koizumi era was not entirely matched by Japan's direct financial assistance programs to China. While leaders in Tokyo continued to see Beijing as an economic opportunity, official government assistance to China waned. Due to China's growing economic and military might, commitments for ODA loans to China were not made after 2008; and future grant aid to China will be limited to poverty alleviation and environmental assistance.³⁶³ Financial contributions designed to encourage trade with China, in the form of JBIC international financial operations monies, also fell as during the first post-Koizumi year. (See Figure 2.8) While ADB funds to China as a percentage of total ADB commitments have also fallen since 2006, China was still the largest sovereign recipient of ADB assistance in 2007.³⁶⁴

As part of a comprehensive review of ODA policies undertaken by the Japanese government between 2005 and 2007, MOFA the government ministry in charge of bilateral assistance policies, planned to increase levels of ODA to Thailand, Vietnam, Laos, Cambodia and Burma over next five years³⁶⁵—

³⁶¹ Ministry of Foreign Affairs, 2008c.

³⁶² Ibid.

³⁶³ Communication with former Japanese government official, December 2008.

³⁶⁴ Authors calculations using ADB data.

³⁶⁵ Przysup, 2008.

partially in an effort to counter Chinese influence, and partially to develop new markets in the Southeast Asian Region.³⁶⁶

To stimulate trade with other nations, Japan expanded its commercial diplomacy by accelerating Economic Partnership Agreements (EPA), with a total of five signed since 2006.³⁶⁷ As of December 2008, Japan was in the process of negotiating EPAs with Australia, India, Korea and Vietnam.³⁶⁸ To protect and encourage mutual investment, Tokyo also signed four bilateral investment treaties (BITs) since Koizumi left office.³⁶⁹

3. Variables Affecting Japan's Response to China: 2006—2008

The Roles of Regional Threats, China and the US in Shaping Japan's Response to China

Together with the continued North Korean threat, China's strengthening military continued unabated during the post-Koizumi years. Shortly after Abe assumed office, an embarrassing and poignant incident highlighted the PLAN's advancements in underwater warfare. In October 2006, a Chinese Song-class submarine broached the surface within a five mile range of the USS Kitty Hawk in waters near Okinawa.³⁷⁰ While the Kitty Hawk was participating in exercises, and its escort ships not actively engaged in anti-submarine activities, the fact that the Song-class submarine sailed undetected until it surfaced suggests that Chinese submarine technology had attained a certain level of sophistication. In addition, the PLAN's four older Russian-made Kilo class attack submarines are to be upgraded in Russia, most likely to include installation of the capable Sizzler anti-ship cruise

³⁶⁶ METI also encouraged investment in Southeast Asia as part of its China plus one strategy. See METI, White Paper on International Economy and Trade 2005, Tokyo, Ministry of Economy, Trade and Industry, 2005.

³⁶⁷ Ministry of Economy Trade and Industry, 2008. The five were: Chile, Thailand, Brunei Darussalam, Indonesia, and ASEAN member states as a whole.

³⁶⁸ Ibid. Japan signed EPAs with Switzerland, ASEAN, Indonesia, Brunei, Thailand, Chile, Philippines, Malaysia, Mexico and Singapore.

³⁶⁹ Ibid, as of October 2008. The four countries were: Cambodia, Laos, Uzbekistan and Peru.

³⁷⁰ See Office of the Secretary of Defense, 2007, and Gertz, 2006.

missile.³⁷¹ Other PLAN developments of particular significance to Japan include the development of anti-ship ballistic missiles.

As of November 2007, China had amassed over 1,000 short range ballistic missiles opposite Taiwan. China's successful anti-satellite missile test in 2007 further highlighted its growing military capabilities.³⁷²

Domestic Influences on Japan's China Policy — 2006-2008

The push towards reform of the domestic system and streamlining of the cabinet decision making process that Koizumi accelerated during his administration lost their momentum during the Abe and Fukuda premierships. Abe was an ineffective leader, and was unable the push through reforms of the bloated postal service—which had become a pet-project of Koizumi. Abe's successor, Fukuda Yasuo, was similarly unsuccessful when it came to reforming the domestic political system.³⁷³ As such, ministries which saw their power undercut by the *kantei* during the Koizumi era regained some of their influence.³⁷⁴ Momentum towards shedding the Yoshida Doctrine and defining security less in strictly economic terms appeared to lose steam as well, as Fukuda was wary of lifting Japan's ban on collective self defense, a possibility that Abe had explored.³⁷⁵

As of 2008, Japan's domestic polity was stuck somewhere between an Asian developmental and laissez faire type, and the center of gravity among its elites drifting between defining security in strictly economic terms and more traditional security/nationalist norms. Changing interpretations of Article 9 made Japan more assertive in its security posture. While the Yoshida Doctrine's influence was significantly weaker, elites had not discarded the economic dimension of Japan's definition of security.

³⁷¹ O'Rourke, 2008, p. 9-10.

³⁷² Office of the Secretary of Defense, 2008.

³⁷³ See, for example, Takenaka, 2008, p. 30.

³⁷⁴ Since Abe became prime minister, the Ministry of Finance appears to have regained power. Discussion with Taniguchi Masaki, Oct 20, 2008.

³⁷⁵ Shiraishi, 2007, p. 10.

ASSESSING JAPAN'S RESPONSE TO CHINA DURING THE POST-KOIZUMI ERA AGAINST STRUCTURAL REALISM

Facing rising external threats from China, some aspects of Japan's behavior since the Koizumi years are explained by structural realism. Force deployments and other aspects of internal balancing and military acquisitions indicate efforts to deter and defeat possible threats emanating from the PRC. The shifting of two F-15 squadrons to Naha air base, in Okinawa, provides the clearest example of internal balancing. At the same time, Tokyo continued to expand its security cooperation with Washington, and relations with like-minded regional democracies—such as Canberra and New Delhi—in an attempt to balance against Beijing.

Several puzzles in Japan's policy stances vis-à-vis China remain unsolved when invoking structural realism. While Japan appears to be chipping away at the Yoshida Doctrine to adopt a more muscular and decisive military posture, as evidenced by the upgrading of the Japan Defense Agency to the Ministry of Defense in 2007, other behaviors are more reminiscent of Yoshida's thinking. Japan's continuing reluctance to spend more than 1% of its GDP on military expenditures during the post-Koizumi era represents continued adherence to the interpretive extension of Article 9, and is not consistent with the predictions of structural realism. Tokyo's desire to strengthen its ties with Beijing, as evidenced by Hu-Fukuda joint statement in May 2008, are also not predicted by structural realism.

Furthermore, Japan's economic policy stances towards China since 2006 run counter to the implied predictions of structural realism. During the Abe and Fukuda administrations, Japan did not restrict, but in fact continued to encourage economic activity with China through trade missions and export credits. And through its leadership of the ADB, China was still the largest single recipient of development aid in both 2006 and 2007, receiving 19% and 23% of ADB commitments, respectively.³⁷⁶ That Japan continues to subsidize China's growing national power suggests that it does not see its neighbor as just a growing military threat—an additional indication that external threats are not the sole drivers behind Japan's response to China.

³⁷⁶ Author's calculations based on ADB data.

ASSESSING JAPAN'S RESPONSE TO CHINA DURING THE POST-KOIZUMI ERA AGAINST DOMESTIC GRAND STRATEGY THEORY

Japan's response to China during this period exhibits tension between balancing the twin goals of economic strength and military power. While Abe, Fukuda and Aso were not as successful as Koizumi in pushing through reforms which pulled Japan away from the Asian developmental state type, they operated in a new political framework in which had become more accustomed to perceive external threats through a combination of "development" and "military/security" lenses. Some of the puzzles in Japan's response to China, which are less explained by structural realism, appear to be more explained by domestic grand strategy theory. Japan's continued military modernization and acquisitions to counter threats from China indicate that elites are becoming more sensitive to rising Chinese threats. However, the continued importance placed on securing economic advantage meant that Japanese elites still viewed China as an economic opportunity, and encouraged certain types of trade and investment activities in China.

ANALYSIS AND CONCLUSIONS – WHICH THEORY BEST EXPLAINS JAPAN'S RESPONSE TO CHINA OVER TIME?

Overview

A sea-change in both Japan's international milieu and domestic conditions took place since the end of the Cold War. The diminishment of the Soviet threat was gradually replaced by threats coming from North Korea and China. At the same time, pressure from Japan's key alliance partner, the US, for Japan to contribute more to defense efforts and more openly adopt collective defense measures, also grew since the end of the Cold War. China's economic rise since 1990 has also reshaped regional dynamics, benefitting Japan and the region economically, and resulting in China becoming Japan's largest trading partner.

Domestically, Japan's notable Asian developmental state structure began to wither since the end of the Cold War. Two of the three pillars supporting Japan's iron triangle amongst the economic bureaucracy, the LDP, and business interests underwent fundamental changes in the mid-1990s and 2000s. The first pillar, the economic bureaucracy, weakened as a result of numerous scandals. The second pillar, the power of pragmatists (mainstream conservatives) over the revisionists (anti-mainstream conservatives) within the LDP, shifted in the late 1990s, allowing revisionists to gain more power and influence in the Japanese polity. These changes were combined with evolving definitions of security among the elite, and the withering of the Yoshida Doctrine as a guiding principle.

In light of these tectonic external and internal changes, how is Japan's changing response to China best explained—through explanations that primarily focus on external security threats (structural realism), or those that emphasize domestic political structures and security conceptions, as measured by state-type (domestic grand strategy theory)?

Structural Realism

Certain parts of Japan's response to China have been consistent with the predictions of structural realism. Internal military balancing by Tokyo over time suggests that it is indeed planning to deter and defeat threats emanating from China, and also North Korea. As its surroundings became more threatening, Japan deepened its strategic and military embrace of the US, and forged alliances and ties with other regional powers to hedge against China. While China is not the *sole* threat Japan faces, its overall response to the Chinese threat is consistent with Japan's larger responses to other regional threats. However, structural realist explanations by themselves do not appear sufficient in explaining a significant part of Japan's response to China. The delayed timing of some of Japan's military re-deployments, and relatively flat levels of military spending in light of not only the Chinese threat, but the North Korean one as well, do not comport with the tenets of this theory. In terms of time lags, the decision to relocate F-15Js to Naha was not made until 2005, and only completed in 2008. In contrast, efforts to balance against threats from North Korea (or threats mentioned by Japan as coming exclusively from North Korea) were made much earlier, with decisions by Japan to cooperate with the US on BMD inked in 1999. These differences in timing might be justified by the differing

nature of North Korean versus Chinese threats, but nonetheless look puzzling from the realist point of view.

Furthermore, Japan's diplomatic and economic stances towards China over time are not well explained by principles of structural realism. Rhetoric on reducing financial assistance to China often resulted in modest, and temporary reductions of funding, while actual disbursements continued even after military activities from China which threatened peace and stability in the region. And as trade and investment continued to grow, no efforts were made by the Japanese government to restrict such private and business activities. On the contrary, policymakers and elites advocated further economic and commercial engagement with China. And although diplomatic rhetoric is not strictly in the predictive realm of the realist school, one can infer that the tone of relations is likely to mirror those in the military and security modes. The fact that Japan continued its internal and external military balancing behavior during and post-Koizumi, but that its diplomatic ties with China fluctuated enormously between the Koizumi and post-Koizumi periods, is also curious from the realist angle.

Domestic Grand Strategy Theory

Though a less parsimonious explanation, domestic grand strategy theory appears to explain Japan's response to China since the end of the Cold War. When Japan most closely resembled the Asian developmental state ideal-type in the early 1990s, its military/security, diplomatic, and economic stances vis-à-vis China were more consistent with the tenets of domestic grand strategy theory than those of structural realism. While Japan did engage in some degree of military redeployments during the early 1990s to re-calibrate its northern oriented strategy, it only deepened its security embrace with the US in the late 1990s. This time delay, which is not satisfyingly explained by structural realism, becomes clearer when one considers that Japanese elites viewed external threats through lenses that stressed economic strength and advantage.

As the effects of the 1994 electoral reforms transpired, and corruption scandals tarnished the image of the bureaucracies, additional efforts were made to strengthen the power of the prime minister's office. During this period, Japan's embrace of the US began to deepen as well. However, the continued existence of a relatively strong bureaucracy during the late 1990s also correlates with Japan's

reluctance to increase its military spending, even in the wake of external threats and destabilizing behavior by China.

When Japan further shed its Asian developmental state characteristics during the 2000s under Koizumi's leadership, Japan also began to balance against China militarily and politically through both internal and external balancing. During the Koizumi years, momentum also gathered to phase out ODA loans to China, which had been the prime expression of Japan's economic-centric view of security. Japan's somewhat ambivalent, or hedging, policies towards China in terms of diplomacy and trade investment policy is also consistent with the domestic explanation since it continues to shed its Asian developmental state characteristics.

The remnants of Tokyo's Asian developmental state status along with propensity of some to define security in economic terms is also a contributing factor in Japan's unwillingness to exceed the 1% of GDP barrier in terms of military expenses. Though Japanese elites often express concerns other Asian neighbors would have were Japan to exceed the 1% threshold, the barriers to increasing military expenditures beyond the 1% mark are primarily domestic. Within the Diet, the LDP had secured the Komeito's agreement to upgrade the JDA to the Ministry of Defense in 2007, but under the condition that the Komeito would have authority to monitor the military budget—essentially postponing any possibility of raising the defense budget for the time being.³⁷⁷ The Ministry of Finance still maintains enough influence as of 2008 to prevent the budget from being raised above 1%.³⁷⁸

Furthermore, domestic grand strategy theory seems to offer the best explanation for the fluctuating tone of bilateral relations during and after the Koizumi era. When Koizumi had attempted to push the envelope of domestic reform, and attempted to assert his own personal version of Japanese nationalism through visits to the Yasukuni shrine, relations with China suffered. Though the spat with China over Yasukuni was more rhetorical, it did lead to palatable damage in the substantive matters of bilateral ties. Since Koizumi left office, subsequent Prime Ministers Abe and Fukuda have not been powerful enough to prevent the Asian developmental state elements of Japan's polity from

³⁷⁷ Communication with former Japanese government official, October 2008.

³⁷⁸ Correspondence with former senior US government official overseeing Asia policy, October 2008.

regaining ground. As such, some policies which emphasize the economic importance of China have surfaced again.

Are External Factors Driving Changes in Japanese Domestic Political Structures and Conceptions of Security?

It is reasonable to ask whether changes in Japan's state type—drift towards becoming a *laissez faire* state through the weakening of its economic bureaucracy, the loosening grip of LDP mainstream conservatives on power, the withering of the Yoshida Doctrine—are the result of external or domestic factors. If such changes have primarily been the result of Japan's changing external security landscape, the independent variables under domestic grand strategy theory would be intervening variables, with external events actually driving the changes in Tokyo's response to Beijing over time. What does the evidence suggest?

The preponderance of evidence indicates that the structural changes which transpired in Japanese domestic politics were caused by domestic shocks and events. The 1994 electoral reforms, for example, were spurred almost entirely by domestic forces.³⁷⁹ This is not to say that external threats did not spur Japanese leaders to implement some of the changes allowing for streamlined decision-making or strengthening of the prime minister's office (*kantei*). It is undeniable that external crises—in the form of China's 1995 and 1996 military activities off the Taiwan Straits and North Korea's 1994 nuclear crisis and 1998 missile launches over Japan—spurred the reform of Japan's crisis management system, and facilitated the increasing power of politicians and the prime minister's office (*kantei*). However, the dismal failure of the Japanese government to effectively coordinate and respond to the 1995 Great Hanshin Earthquake was the *primary* reason for some reforms that specifically strengthened the role of the Cabinet to handle emergency situations—such as the creation of the Office of Crisis Management (also referred to as the Cabinet Security Affairs Office).³⁸⁰

³⁷⁹ Pempel, 1997, p. 356, describes the call for reform by the Keidanren. Overall, Pempel describes mostly domestic forces driving electoral reform change. See also Leadbeater, 1993 for evidence of domestic motivation.

³⁸⁰ See Shimizu, 1998. For evidence of the dismal response, see Kato, 1995.

Revisions to the Cabinet Law in 1999 and 2001 were also motivated by domestic problems as much as they were by external security threats.³⁸¹

Could US pressure for Japan to increase its military operational contributions to the US-Japan alliance have caused Japan to reform its crisis management system and the direction of its overall security posture to one that was more muscular against all threats?³⁸² If so, Tokyo's military balancing against Beijing could simply be the result of a more aggressive, macro-military posture nurtured by Washington. US pressure for Japan to increase its military spending and adopt a more muscular military is actually nothing new. During the 1980s, the Reagan administration had pressured Nakasone to increase defense spending, but to no avail.³⁸³ Similar pressure for the Japanese to contribute militarily to the 1990-1991 Persian Gulf War, and the 1994 Korean Peninsula crisis did not yield satisfactory outcomes. After the September 11, 2001 terrorist attacks, the US also expected Japan to contribute more than just financial support to the war effort in Afghanistan.³⁸⁴ Japan did contribute supply ships to help with logistics and refueling of US vessels in the Indian Ocean. Can Japan's unprecedented contribution of troops be the result of US pressure? While there were expectations held by the US, pressure for Japan to respond and "show the flag" also came from *within* Japan.³⁸⁵ There were reports that MSDF officials had asked their US counterparts to pressure Japan to deploy Aegis destroyers to the Indian Ocean.³⁸⁶

³⁸¹ In language describing the motivation for revisions to the Cabinet Law, the first sub-section of Section 1 notes: "As Japan's goals have become more diverse and both internal and external circumstances have seen increasingly radical changes, it has become imperative to establish a system to strengthen the administrative leadership of the Cabinet and Prime Minister so that timely decisions can be made with strategic and comprehensive administration." See Kantei, 2001. In this case, "more diverse" goals implies not only greater attention to security caused the changing international environment and the end of sole reliance on the US for defense needs, but also an end to just the economic focus of the Yoshida Doctrine and the "Comprehensive Security" concept of the 1980s. The author is grateful to former Japanese and US senior government officials for these insights.

³⁸² The indecisiveness and ambivalence of Japan to support the U.S. during the 1993-94 North Korean nuclear crisis was a sore point in U.S.-Japan ties. Secretary of Defense William Perry noted that if conflict actually had ensued, and the U.S. did not have access to Japanese bases, the alliance would have been terminated. See Pyle, 2007, p. 296.

³⁸³ For background on US pressure, see Kelly, 1983.

³⁸⁴ Former US Deputy Secretary of State Richard Armitage had hoped Japan would contribute Aegis destroyers to the effort as well. Jiji Press Ticker Service, 2002.

³⁸⁵ For expectations within Japan to respond and tacit US pressure, see Samuels, 2007, p. 95.

³⁸⁶ Boyd and Samuels, 2005, p. 12, cites this as an example of manufactured foreign pressure.

Changes in Japan's external security environment may have accelerated efforts for Japan's leaders to strengthen domestic institutions which increased the role of the politicians and military officials over those of the economic bureaucracy, but such changes evidently were caused by domestic events which desperately highlighted the need for political reform.

CHAPTER 3

KOREA'S RESPONSE TO CHINA

As a country sharing historic and—aspirationally as a reunified Korea—future boundaries with China, the Republic of Korea (ROK) is perhaps the nation most affected by China's recent rise.³⁸⁷ Since the end of the Cold War, this “Asian miracle” has undergone drastic shifts in its external security environment and domestic political liberalization. China was once viewed as a mortal threat to South Korea's survival as China and its ally, North Korea, threatened to decimate the South during the Korean War. Today, Seoul views Beijing as an economic and diplomatic partner. Indeed, Korea's economic engagement with China ranks as more intense than with most other Asian nations, with a higher share of its FDI going to China than those of Japan or Thailand. The question of why Korea's policies towards China have changed so drastically over time begs to be answered.

Korea's policy stances towards China can be said to reflect two aspects of its strategic thought: one short and near-term, where South and North Korea are separate states; and one long-term, where Korea is re-unified. This bi-temporal outlook necessitates policies that are at times divergent, and at other times, convergent. While elites viewed enlisting Beijing's help to stabilize a volatile Pyongyang as benefiting Seoul's security situation, they were also cognizant that under the future scenario of a reunified Korea, Beijing's involvement in Korean Peninsular affairs might go against Seoul's geo-strategic objectives and interests. Strategists' economic views of China, though, did not appear to be linked with geo-strategic concerns about China's role in a divided versus unified Korea.

This chapter describes and analyzes the response of Korea to China since 1992. It begins with a section describing the historical baselines of Korea's policy stances towards China prior to the 1990s. I outline the independent variables affecting Korea's response to China—external threats and factors such as the US alliance, Democratic People's Republic of Korea (DPRK), China's policies, and

³⁸⁷ Except in circumstances where the context would be confusing, this study uses Korea to describe the ROK. In ambiguous circumstances, the ROK or South Korea will be used instead. The DPRK will be referred to alternatively as North Korea. The ROK and DPRK will also be referred to as South and North, respectively.

domestic political structure and ideational variables—followed by a description of the response itself. Korea's policy responses to China are then described and assessed over two time periods: 1992 to 1998, and 1998 to 2008. The time periods were chosen because 1998 demarcates the beginning of a significant shift in Korea's policy response to China.³⁸⁸ For each time period, I assess Korea's response against the two analytical frameworks discussed in the theoretical chapter: structural realism, part of the neorealist school; and domestic grand strategy theory, an ideational-liberal explanation.

BACKGROUND – KOREA'S CHINA POLICY IN THE 1970s AND 1980s

To provide historical context for the changing response of Korea to China, this section highlights key features of Korea's historical relationship with China since the Korean War. Seoul's political, security and economic relations with Beijing were colored by external and domestic variables: its alliance with the US, the DPRK threat and the role of the US and China in managing that threat, China's changing policies towards Korea, and the evolving nature of Korea's domestic polity. I first outline Korea's political and security stances towards China before highlighting some of the economic aspects of bilateral ties. Due to the importance of Korea's domestic political structure and ideas held by its elites, the last part of this section examines how the ROK's domestic polity colored its perceptions of and policies towards the PRC. Separate treatment of these variables does not mean that each operated in isolation from the other. Rather, external and domestic variables interacted to shape the perceptions of China among Korea's leaders during the Cold War.

1. Political/Security Background

Prior to 1992, South Korea's security stances and diplomatic policies towards China were conspicuous by their indirect nature. Korea's political and security ties with China prior to normalization of bilateral relations were conditioned by the Cold War configuration of alliances and security partnerships, in which Seoul's subordinate position relative to its alliance partner in Washington left a deep imprint. Elites within the ROK viewed the PRC with suspicion because it

³⁸⁸ After 1998, the ROK accelerated its diplomatic and economic engagement of China.

took the opposing side in the Cold War configuration of alliances and supported the DPRK. External constraints, however, did not solely shape Korean elite perceptions of China.

Influence of the US on Korea's Response to China During the Cold War

The narrative of Korea's political and security ties with China during the Cold War cannot be assessed without evaluating its dependence on its sole security guarantor, the US.³⁸⁹ Throughout most of the Cold War era, the ROK cast its lot with the US, taking steps to strengthen bonds so as to prevent abandonment by Washington and demonstrate its reliability as an ally.³⁹⁰ A heavily militarized society and a defense posture that was determined by the US circumscribed the ROK's strategic outlook towards China.³⁹¹ As a result, Korea's leaders—who were former military generals themselves—did not play a major role in shaping an independent concept of its strategic future, and relied on the US, its “big brother,” for military and security policy formation.

As the US began to recalibrate its military and diplomatic strategy in Asia, casting doubt as to the longevity of its commitment to the region, Korean elites began to evaluate the possibility of cultivating relations with China—which nonetheless remained a threat due to its support of the DPRK.³⁹² Following Washington's overtures towards Beijing in the early 1970s and eventual

³⁸⁹ The US became Seoul's sole security guarantor under terms chiseled in the 1953 US-ROK Mutual Defense Treaty—an agreement which stands to this day.

³⁹⁰ After General Park Chung Hee seized power in a 1961 coup, he took Korea on a staunchly anti-communist stance to bolster US support for a weak Korea. Park deployed Korean troops to fight alongside the US in Vietnam for both economic and security rationales. Financially, Korean military aid to the US war effort led to numerous military support contracts for Korean firms, earning the Korean economy substantial amounts of hard currency. By 1966, 40% of South Korea's foreign exchange earnings came from support for the US effort in Vietnam. Oberdorfer, 1997, p. 35. For additional information on the ROK's participation in the Vietnam conflict, see Han, 1978.

³⁹¹ Korea's military was under operational control of the US Forces Korea (USFK) and the Combined Forces Command (CFC) during both peacetime and conflict. Symbolic of the ROK's reliance on the US, USFK barracks were located in downtown Seoul.

³⁹² US plans to reduce troops during the Nixon and Carter administrations awoke ROK elites to the possibility of abandonment, providing the impetus for considering a defense posture and security policy that was more independent of the US. The possibility of decreased US military support accounted for increased ROK military expenditures during the Cold War. As part of the Nixon's Guam Doctrine of mid-1969, stipulating that Asians should contribute more manpower to their own defense, the US downsized its military presence while it was pulling back from Vietnam; it had completed withdrawal of almost a third of its forces by March, 1971. See Lee, 2006a, pp. 67-70, and Kim, 2007, p. 129.

normalization of Sino-US ties in 1979, Seoul became more confident in nurturing its own political and economic linkages with Beijing.

In conjunction with the ROK's foreign policy goals vis-à-vis the DPRK, the late 1980s began to see restructuring of the armed forces to develop capabilities more independent of the US—what was termed a “future oriented” defense policy, or the “Koreanization of Korean defense.”³⁹³ As the US began to prepare for the winding down of the Cold War by enacting the Nunn-Warner Amendment of 1988 to mandate a phased reduction of US forces in East Asia,³⁹⁴ ROK defense planners and elites saw the need for strengthened naval and air capabilities to compensate for reduced US support. The reduction of US military involvement in East Asia also prodded ROK elites to re-evaluate Korea's relations with China.

Influence of the DPRK on Korea's Response to China During the Cold War

As a divided state, Korea's national security strategy was deeply rooted in cultural and nationalistic desires for eventual reconciliation with the DPRK. Because the DPRK weighed so heavily in the ROK elites' strategic thinking, its China policy cannot be understood without examination through the prism of the DPRK. Seoul's path to Pyongyang often transited through Beijing during the Cold War, as the ROK believed cultivating relations with the PRC would weaken the DPRK's ties with its ally, and moderate its belligerency. Because of Beijing's support for Pyongyang during the Korean War, and a Sino-DPRK alliance that was as “close as lips are to teeth,” Seoul's ties to Beijing were extremely antagonistic prior to the 1970s. However, the ROK's internal thinking on China began to change during the 1970s as part of President Park Chung Hee's exploration of establishing contacts with China and the USSR—a policy which was in parallel with his efforts to improve ties with the DPRK.³⁹⁵ Though these initiatives did not achieve much momentum, they served as antecedents for

³⁹³ Ministry of National Defense, 1992, p. 30.

³⁹⁴ Moon and Lee, 2008, p. 121.

³⁹⁵ Elite thinking in South Korea during the 1970s began to accord greater possibility to rapprochement with China. Chung notes that “According to Seoul's internal position as of 1972, South Korea would not take an antagonistic position vis-à-vis China unless Beijing chose to take such a position toward South Korea first.” (Chung, 2007, p. 30) On July 4, 1972, the two Koreas issued a joint statement in indicating that unification would be achieved without interference of external parties, through peaceful means and upholding the concept of national unity (Oberdorfer, 1997, p. 23). Another element of this strategy involved the 1973

subsequent policies of rapprochement vis-à-vis the DPRK that were advanced by the Chun Doo Hwan and Roh Tae Woo administrations, and began a long pattern of Korea's progressively deeper efforts to leverage its ties with China in an attempt to pacify the DPRK.

Park's successor, President Chun Doo Hwan, followed in his footsteps and attempted to strengthen contacts with Beijing and Moscow to enhance Seoul's security and standing relative to Pyongyang. Chun's foreign minister, Lee Bum Suk, was the first to call for normalization of relations with China and the USSR as part of a larger strategy to exert leverage over the DPRK—referred to as *nordpolitik*.³⁹⁶ While Chun's initiatives towards reunification were stalled due to Pyongyang's attempt to assassinate Chun in 1983, efforts to bring Pyongyang into Seoul's fold continued through the strengthening of economic ties with Beijing and Moscow. Frequent North Korean terrorist infiltrations, combined with constant tensions in the De-Militarized Zone (DMZ) separating the North and South, and security threats from the Soviet Union, made China a more attractive neighbor in the 1980s than it was in the past. After the ROK strengthened relations with the USSR and PRC, it claimed the upper hand in negotiations with the DPRK.

President Roh Tae Woo aggressively implemented the path-breaking *nordpolitik* strategy as part of the belief that having Beijing's ear would help to dampen Pyongyang's threat.³⁹⁷ Roh's *nordpolitik* was successful in that the ROK was able to use China's influence to steer the DPRK towards reconciliation on Seoul's terms. With China providing the necessary pressure, the DPRK accepted simultaneous entry of the two Koreas into the UN in 1991.³⁹⁸ And in 1992, Roh succeeded in normalizing relations with China.³⁹⁹

concept of "cross recognition," in which the ROK would recognize China and the USSR, while the DPRK would recognize the US and Japan in exchange. For more on cross recognition, see Hong, 2008, p. 39-40.

³⁹⁶ Oberdorfer, 1997, p. 187. With enhanced US support from President Reagan, Chun was more assured of his domestic standing and launched a bold diplomatic initiative aimed at strengthening the ROK's regional ties and reconciling relations with the DPRK on the ROK's terms. In 1981, Chun successfully solicited support from ASEAN nations for the simultaneous entry of the North and South to the UN—a goal of the ROK, but opposed to by the DPRK (Hong, 2008, p. 43).

³⁹⁷ Throughout the Cold War, the DPRK threat was indeed very real. The North had attempted to assassinate Park Chung Hee in 1974, which would up killing his wife. The 1983 attempt on Chun's life would up killing much of Chun's cabinet members. In 1987, North Korean agents succeeded in bombing a Korean Airlines jet en-route to Seoul. See Oberdorfer, 1997, pp. 47, 140-144, 183.

³⁹⁸ Roh's strategy to improve relations with northern socialist states was supported by the US, and was also possible because of China's domestic economic reforms and the Soviet Union's political liberalization. Roh

2. Economics/Trade Background

Korea actively cultivated economic relations with China during the Cold War to realize two sets of goals: enhanced political ties with China to realize increased bargaining power over the DPRK, and vibrant economic growth and development back home. Certainly, Korea's economic policy stances towards China during the Cold War era were not formulated without China's encouragement, but the initiative did come from Korean elites.

Although Korea was a heavily militarized and authoritarian state under Park Chung Hee, the imperative of economic growth contributed significantly to its foreign policy and rapprochement with China.⁴⁰⁰ In a two-pronged strategy aimed at increasing its diplomatic ties in the region and nurturing economic growth through international trade, Korea liberalized its foreign trade laws in 1972 to allow commercial activities with communist countries, and also increased diplomatic contacts with China and floated the idea that both should participate in maritime boundary negotiations.⁴⁰¹ Seoul's motivation to expand trade with Beijing was justified by the complementary nature of the two economies during the 1970s and 1980s, where Korea's capital intensive and poor natural resource conditions meshed well with China's labor advantages and rich supply of natural

scored a major political victory in December 1991 when the two Koreas inked the "Agreement on Reconciliation, Nonaggression and Exchanges and Cooperation between the South and the North," also referred to as the 1991 December Accords. See Ibid, pp. 211 and 262.

³⁹⁹ Echoing Park Chun Hee's 1973 proposal for cross recognition, Roh's nordpolitik aimed to do the same. See Hong, 2008, p. 50. While President Chun Doo Hwan viewed China as offering economic gains, his successor, Roh Tae Woo, aimed for normalization of political relations. See Rozman, Hyun and Lee, 2008, p. 14. While there were very pragmatic reasons for Korea and China to establish diplomatic relations, the role of history and identity also served as a backdrop that was invoked by both sides to accelerate warming ties. Koreans on both sides of the DMZ had long considered China an "elder state," or *daeguk*, and Kim Il Sung had used China as a channel of communications to the ROK and US. See Oberdorfer, 1997, pp. 144 and 230.

⁴⁰⁰ The importance of economic growth in the ROK's national strategy is illustrated by the fact that despite Seoul's historical antipathy to Tokyo, the two normalized relations in 1965, leading to economic gains for the ROK in the form of an \$800 million assistance package from Japan.

⁴⁰¹ In March 1973, Seoul suggested to Beijing negotiations to delineate the boundaries of the continental shelf off the Yellow Sea. While China initially turned down the proposal, it warmed to the idea several months later (Chung, 2007, p. 30-31).

resources.⁴⁰² Landmark changes in China's government in 1978, which moderated its foreign policies and emphasized economic development, facilitated more cordial rhetoric between the two countries, laying the foundation for cooperation in the political realm.⁴⁰³

While unofficial and indirect Sino-Korean trade grew from the 1970s through the 1980s, data are generally unavailable for the early 1970s as both countries sought to conceal supposedly non-existent economic ties for fear of alienating their respective allies, North Korea and Taiwan.⁴⁰⁴ Total trade between Korea and China was US \$19 million in 1979, but grew to \$462 million in 1984, and reached \$1.7 billion by 1987.⁴⁰⁵ During the mid to late 1980s, Korean conglomerates also invested in China through the formation of joint ventures.⁴⁰⁶ And both Korean and Chinese governments were relatively satisfied with patterns of trade in the 1980s.⁴⁰⁷

By 1985, ROK-PRC trade surpassed DPRK-PRC trade.⁴⁰⁸ The growth in trade facilitated a more trusting bilateral political relationship as well, facilitating the ROK's *nordpolitik* strategy. In his presidential campaign in 1987, Roh Tae Woo openly linked political ties with China with Korea's economic well being when he stated improving ties with China and "cross[ing] the Yellow Sea" would help develop Korea's western region (which faces China's eastern coast).⁴⁰⁹ By the time Roh became president, government leaders and businessmen saw opportunities to revive a somewhat sagging export sector with productive, and cheaper, Chinese labor;⁴¹⁰ China welcomed such efforts, as well as the method of advancing political ties through trade relations.

⁴⁰² Dollar, 1989, p. 1168.

⁴⁰³ China appeared to share an interest in developing trade ties with Korea as well. For example, while the Soviet Union actively criticized South Korea for the Kwangju massacre in 1980, when a pro-democracy uprising was crushed with the assistance of the army, China was more moderate in its commentary (Chung, 2007, p. 33).

⁴⁰⁴ Ibid, p. 35.

⁴⁰⁵ From table 4.1, based on data from Joong-ang Daily and the Hong Kong Economic Yearbook, found in Ibid, p. 36.

⁴⁰⁶ Ibid, p. 39.

⁴⁰⁷ Dollar, 1989, p. 1168.

⁴⁰⁸ Cha, 1999b, p. 75.

⁴⁰⁹ Oberdorfer, 1997, p. 242.

⁴¹⁰ Hong, 2008, p. 48.

3. Domestic Political Conditions and Background – State Structure and Ideation

External determinants, such as policies of the US, DPRK and China, all contributed to shaping Korea's response to China prior to 1992. However, domestic variables affected the response as well. During the Cold War era, both Korea's domestic political structure, and the concepts of national security embraced by its elites, played a crucial role in determining Seoul's policy response to Beijing. While I parse domestic political structure and ideation as two separate analytical variables, these two factors interacted with one another in Korea's domestic political landscape, with each often reinforcing the other.

The interplay of Korea's domestic political structure and ideation formed a regime that was typical of an Asian developmental state. It espoused capitalism, but did not embrace free markets. Because business interests were subservient to national economic interests, the state shaped industrial policy through its control over access to capital. Authoritarianism, combined with the collusive relationship between the state and business, delivered tremendous economic growth, and contributed to the ROK's economic and political engagement of China during the Cold War.⁴¹¹

A triangular political structure provided a platform upon which Korean elites crafted policies towards China during the Cold War. From the 1960s onwards, Korea's domestic political system settled into an equilibrium where three nodes of influence—the presidential leadership, conservative politicians, and business interests—co-existed in an informal alliance which wielded much influence over policymaking. This symbiotic governing structure was solidified and nurtured by Park Chung Hee, Korea's president from 1961 to 1979, and was both the sustainer of, and sustained by, the ROK

⁴¹¹ Economic growth also produced perverse incentives which facilitated the ROK's economic woes in the late 1990s. Analysts and Korean politicians alike have often justified successive waves of authoritarian governments prior to the 1990s by invoking the twin imperatives of security and economic development. Politicians of the time, such as Park Chung Hee and Chun Doo Hwan, correctly pointed to the ominous North Korean military threat to the ROK's survival, and the need to lift Koreans out of dire economic straits of the early 1960s. Analysts look retrospectively and cast doubt as to whether Korea's rapid pace of economic growth could have been achieved without strong government policies that came with authoritarian rule. Nonetheless, success in generating unprecedented economic growth in the thirty years prior to the mid 1990s involved the sacrifice of many.

leadership's belief that Korea's security rested with economic growth and development, and technological prowess.⁴¹²

To provide historical context relating to the liberal-constructivist determinants of Korea's response to China, the paragraphs below highlight the most salient features of Korea's Asian developmental state type.

Leadership and Bureaucratic Landscape

The dominant node in the triangular structure of Korean politics was that of the central government—revolving around the presidency and Blue House—which I will also term the “state.” Centered around the president and backed by the military, the strength of the presidency was consolidated by Park Chung Hee, and served as a distinguishing feature of the Korean governance system during the Cold War.⁴¹³

Park and key government officials worked closely with influential business groups and families to achieve economic growth.⁴¹⁴ Ministries and bodies involved with key fiscal and economic affairs,

⁴¹² Korean industrial policy from the mid 1960s to the mid 1990s (and perhaps arguably, even today) was grounded not in neoclassical economics, but in the mercantile tradition. Korea's industrial policy was linked with strategic trade policy, or a belief in increasing returns—that through exports in retainable sectors, Korea could reap oligopoly rents in certain sectors. Such thinking was part and parcel of a belief that Korea's security could not be assured without lifting its people from poverty and delivering economic growth. In terms of the structure of Korea's domestic polity, it was unlike the Japanese version of Asian development state. The authoritarian nature of the ROK meant that the presidential leadership (Blue House), military and economic bureaucracy often functioned as one unit. The absence of true representative democracy until 1987 meant that conservative politicians exerted their influence through the Blue House rather than the legislature. Despite the military's influence on presidential power, economic technocrats were quite influential in policymaking. Elected politicians in the legislature were largely left out of the picture, with the large businesses and presidential leadership forming a collusive relationship which played a dominant role in policymaking.

⁴¹³ Like many Korean elites, Park inherited the Japanese conception of achieving security and strength through wealth. Many Korean elites had collaborated with the Imperial Japanese government, but were not purged following the war because they had the skills necessary to rebuild Korea after independence in 1945. Park, for example, served in the Imperial Japanese army. Park crystallized his stream of thinking of security in economic terms in his memoirs: “With a strong enemy across the 38th parallel, this economic struggle takes precedence over combat or politics. We have to accomplish, as quickly as possible, the goal of an independent economy. We must defeat Communist North Korea in economic battle.” (Park, 1970, cited in Kim, 2007, p. 93).

⁴¹⁴ The Korean Central Intelligence Agency (KCIA) was instrumental in maintaining Park's control, infiltrating all walks of society and government. The KCIA was modeled after the US CIA. For two years after Park's 1961

such as the Economic Planning Bureau (EPB), Ministry of Finance, and Ministry of Trade and Industry, had considerable voice during Park's leadership.⁴¹⁵ Adoption of advanced technology as an enabler of economic strength was encouraged through licensing, and foreign investment was discouraged.⁴¹⁶ Park's state-led capitalism delivered remarkable rates of economic growth, and it was during his leadership that collusive patterns between the governing elite and large industrial conglomerates—known as *chaebol*—were established.⁴¹⁷

Though President Chun reformed the constitution and ceased some of Park's development and growth strategies, he continued Korea's economic development policies, and yielded to American pressure to put Korea firmly on the path to a full democracy by allowing direct presidential elections in December 1987.⁴¹⁸ Despite Korea's transition from an authoritarian to a democratic system of government, Chun's successor, Roh Tae Woo, adhered to core conservative principles of delivering economic growth via a state-led capitalistic system. It was this emphasis on the techno-economic facets of national security among Korea's leaders that contributed to motivating Korea's economic engagement of China.

Political Persuasions and the Dominance of the Conservatives

One political stream of thought dominated Korean domestic politics and state thinking, and played a significant role in shaping Korea's response to China during the Cold War—broadly speaking, the

coup, Korea was governed by a "Supreme Council for National Reconstruction," which purged businessmen, politicians and civil servants that were opposed to Park. The pervasiveness of the state police in Korean society is sobering if one notes that by 1964, that KCIA had 370,000 employees, in country with a population of 20 million at the time. Kim Hyung-Wook, who headed the KCIA 1963-69, and was also member of National Assembly. The KCIA was responsible for the purges, assassinations, and imprisonment of many dissidents and opposition politicians—the most famous of them being Kim Dae Jung, Korean President from 1998-2003. See Kang, 2002, pp. 99, 101 and 104.

⁴¹⁵ Ibid, p. 87.

⁴¹⁶ Analyst Richard Doner notes that Korea wanted to "separate foreign capital from foreign technology." See Doner, 1992, p. 418.

⁴¹⁷ Most of these collusive patterns were established between 1972 and 1979, when Park implemented his "revitalizing reforms," or *yushin*. Ironically, the shock of the *yushin* system on domestic Korean affairs was so great that many came to resent his rule. Coupled with high inflation, a recession, and social unrest, he was assassinated by his once closest personal advisor, the KCIA director, in 1979. For more on Park's October 26, 1979 assassination, see Kim, 2007, p. 145.

⁴¹⁸ Information about Chun and uprisings draws from Oberdorfer, 1997, pp. 162-172.

conservatives. Because the conservatives embraced techno-economic definitions of national security, and saw Korea's strength as coming from its alliance with the US, they tended to follow the US-lead when it came to engaging China. The conservatives were one of two main political streams in the post World War II Korean political narrative, with the other being the progressives (also known as liberals).⁴¹⁹ The conservatives, who trace their political roots to Park Chung Hee, favored economic growth over democracy, saw the US alliance as key to Korea's security, favored big business, and saw North Korea with suspicion.⁴²⁰ Progressives, or liberals, were equally nationalistic as conservatives, but advocated democratization. It was not that progressives were against economic growth—they simply did not believe that economic growth should come at the expense of democratization. In terms of foreign policy, progressives saw the US as complicit in the repressive practices of Park's and Chun's authoritarianism, and advocated a foreign policy which did not subject Korea to being a "puppet" of the US. Domestically, the progressives supported labor movements, and emphasized welfare and equity rather than big business and rapid economic growth.⁴²¹

Business Landscape and the Symbiotic Relationship between Business and Political Elites

The third vertex of the triangle in Korea's domestic political structure consisted of large, family-controlled businesses and holding companies known as the *chaebol*. Yet it was not the *chaebol* alone which wielded much power; rather, it was the symbiotic relationship between state elites and business interests which held the keys to the ROK's economic growth and influence on foreign policy.⁴²² This mutually beneficial arrangement was part and parcel of the ROK's developmental state apparatus,

⁴¹⁹ For a good description of ROK domestic politics, see Hahm, 2005.

⁴²⁰ Ironically, Park had been a member of the communist party prior to becoming president. He also served in Japan's Imperial Army.

⁴²¹ Kim Dae Jung and Roh Moo Hyun, who served as presidents of Korea during the late 1990s and early 2000s, were two notable progressives. Kim Dae Jung, who lost the 1971 presidential election to Park Chung Hee, was kidnapped by the KCIA from Japan in 1973, placed under house arrest, and then sentenced to death for inciting the 1980 Kwangju riots. Intervention of the US in both instances saved his life. Kim Young Sam was also punished for his opposition to Park Chung Hee, and was jailed for opposing military rule, ousted from the National Assembly in 1979 (after publicly calling Park a dictator), and placed under house arrest after Chun took power. Both individuals were beneficiaries of US pressure. Oberdorfer, 1997, p. 176.

⁴²² This web of mutually shared interests is analogous to the virtuous cycle described in T.J. Pempel's concept of the regime: there was a socioeconomic alliance between the business and state, and political economic institutions supported this arrangement, and the larger Korean public policy paradigm espoused an economic growth as a means to security. Rapid economic growth further reinforced this Korean regime.

where both state and *chaebol* had vested interests in maintaining a mercantile trade policy based on export promotion. While the *chaebol* were executors of the state's industrial and strategically oriented export policies, the symbiotic partnership was only successful when global economic conditions provided markets for ROK exports. The Park and Chun eras witnessed much rapid economic growth, but the result of the symbiotic system was widespread corruption and firms that were not capable of surviving in a completely free market.⁴²³

It was during the Cold War era that the linkages between the state and *chaebol* were solidified to facilitate state-led industrialization and the ROK's export drive. Park and Korea's ruling elite implemented government policies in the mid 1960s and early 1970s that encouraged the *chaebol* to enter the export market in sectors where Korea could gain an international competitive edge, and were capital intensive. Firms which had good, often personal, ties with the Park government, and which were successful in delivering exports, received credit at subsidized rates.⁴²⁴ Often, the real interest rates on the most lucrative government loans, so-called policy loans, were actually negative.⁴²⁵

⁴²³ The government had provided so many loans to the *chaebol* that at any given point in time, many were technically bankrupt. Because of the mix of authoritarian leadership with electoral politics in the National Assembly, *chaebol* were obligated to return the favor of access to preferential loans, credits, and contracts with supposed charitable contributions to foundations created by the Korean presidents. Termed voluntary contributions, these corporate funding of the politicians played a major role in politics. For example, between 1971 -75, Hyundai donated 7.4 billion won to Saemaul Undong, a charitable organization founded by Park and also affiliated with President Chun. When the Kukje Group, the seventh largest *chaebol* in 1985, refused to contribute to Ilhae Foundation, Chun Doo Hwan subsequently dismembered company (Kang, 2002, p. 102).

⁴²⁴ Graham, 2003, p. 7. The *chaebol*, businesses run by families which often had close connections with the political leadership, did not grow to the size and character that made them symbols of Korea's economic might until the 1970s. The *chaebol's* penchant towards political involvement can be traced back to Korea's colonial era, during which "political capitalists" were forced to learn that collaboration with the Japanese was essential for prosperity. See Woo, 1991, p. 66. Woo also argues that politics, and not innovation, has always been the key factor supporting big business in Korea. After World War II, some Korean industrialists got their start by supplying and supporting the U.S. military presence, and then during the Park era, also by contracting for the U.S. military's operations in Vietnam.

⁴²⁵ Graham, 2003, p. 40. Nominal interest rates were already lower than market-rates, but real interest rates were negative after adjusting for inflation. Woo provides additional background on forms of government financing. State-based financing came in two different forms: general loans, and policy loans. General loans were essentially government-backed loans (often from the Bank of Korea) with subsidized interest rates, whereas policy loans could be viewed as preferential general loans. Policy loans carried interest rates that were even lower than those of general loans, had longer maturity dates than general loans, and were practically non-defaultable because of state backing (Woo, 1991, p. 163).

Interaction of Domestic Political Structure and Ideation

Given the close ties between the *chaebol* and leadership, Korea's policies towards China were imbued with the amalgamated interests of business and government.⁴²⁶ As a result, elites perceived China's threats and opportunities through "development" filters which highlighted the economic advantages of China. China was seen as an integral potential market in the formation of the ROK's larger industrial and strategic trade policy. Indeed, the *chaebol* were instrumental in President Roh Tae Woo's efforts to improve ties with China.⁴²⁷

The symbiotic relationship between the state and *chaebol* served as the foundation for the ROK's developmental state apparatus and was part and parcel of a techno-economic definition of national security. Shared interests in promoting exports meant that the state had both a receptive and encouraging agent in the *chaebol* and other businesses to expand trade and markets, particularly vis-à-vis China during the 1980s. Throughout the Cold War, steady cooperation between Korea's leaders and business interests endured because of the longevity of the conservatives. And conservatives held sway partly because of Korea's meteoric economic growth. This is not to argue that progressives were not interested in economic growth. However, because of the conservatives' preference for the US, China policy was always considered in the context of US interests and under a "what would Washington think" mindset. This symbiotic regime had remarkable staying power in Korea's domestic polity as long as economic growth continued apace. State led industrialization, and the

⁴²⁶ The *chaebol* did not make business decisions based solely on profit maximizing behavior. While the *chaebol* were motivated by profits, their incentives, and hence business behavior, were steered by the ROK government through a combination of carrots and sticks. Due to the intimate connections between leaders of the *chaebol* and government elites, the state never explicitly directed the *chaebol* to behave in a certain manner. Rather, a sort of mutually beneficial decision making process ensued which meant that industry often incorporated the wishes of the government, and vice-versa. Those that performed well and adhered to industrialization objectives thrived through access to virtually unlimited and cheap credit. Those that were inefficient, or simply not in good stead with the government, were allowed to fail. Such a symbiotic relationship reduced the transaction costs in the interaction between government and business, and allowed business to reap oligopoly profits—so long as they remained in good standing with the government! The downside of this regime was that corruption—the lubricant in the negotiation process between government and business—was rampant.

⁴²⁷ For example, initial discussions in 1990 between the ROK and PRC involved Lee Sun Sok, president of the Sunkyung corporation, as the lead for the ROK delegation (Oberdorfer, 1997, p. 243). The involvement of businessmen in ROK diplomacy highlights the influence of the *chaebol* in ROK foreign policy. During the Chun era, Daewoo chairman Kim Woo Choong was instrumental in forging ROK ties with Hungary (Oberdorfer, 1997, p. 189).

concept of increasing returns to trade melded with strategic trade policy, permeated the ethos of elite society.

KOREA'S RESPONSE TO CHINA – 1992 TO 1998

Overview

During the 1992-1998 period, Korea's policy responses towards China in both security and economic policy realms were shaped mostly by its interests in attenuating the DPRK threat and maintaining economic growth. In addition to Seoul's political engagement of Beijing over management of the DPRK nuclear crisis, expanding trade and commercial cooperation meant that economic ties remained the mainstay of Korea's engagement with China well beyond this period.

This section first surveys the two dimensions of Korea's response to China: political and security policies, and economic policies. Korea's evolving perceptions and policies vis-à-vis China were shaped by a variety of determinants, which can be grouped according to four broad categories: the ROK's core strategic interests on the Korean Peninsula and the DPRK, its alliance with the US, Beijing's own outreach to Seoul, and the ROK's domestic political and ideational landscape. After considering the four broad groups of variables that affect the response, the subsequent section assesses Korea's response against the backdrop of structural realism and domestic grand strategy theory.

1. Korea's Political and Security Response to China: 1992-1998

In the short and near-term, Korea's core strategic interests in maintaining security on the Korean Peninsula contributed to its political and security response to China during the 1992-1998 period. After the formal establishment of diplomatic relations in 1992, both Seoul and Beijing engaged each

other to deepen diplomatic and security ties. Korea's policy stances were part of a new military strategy which called for strengthening relations with China and nations besides the US, such as Japan and Russia. Research and exchange agreements between the Korean Institute of Defense Analysis and Chinese Academy of Military Sciences, the respective military think-tanks of Korea and China, were part of the ROK's larger strategy to establish a strategic "safety net" around the DPRK.⁴²⁸ Subsequent visits of ROK military delegations to the PRC were followed by discussions to elevate bilateral military exchanges in 1996.⁴²⁹

Enhancement of Korea's security ties with China was part of Seoul's larger diplomatic effort to expand its strategic and political options as they related to its core security concern over the DPRK threat—a threat that grew during the 1993-1994 nuclear crisis. This nuclear crisis erupted when the DPRK announced on March 12, 1993, that it intended to withdraw from the Non-Proliferation Treaty.⁴³⁰ At the outbreak of the crisis in 1993, the ROK enthusiastically recruited China to help moderate the DPRK's nuclear belligerence.⁴³¹ Yet as the crisis unfolded, the ROK was sobered by the fact that China was unwilling to support sanctions against the DPRK, something which the Kim Young Sam administration supported.⁴³² As a consequence, the ROK hedged its burgeoning engagement of China with continued alignment with the US.

⁴²⁸ Yoshikawa, 1993.

⁴²⁹ Japan Economic Newswire, 1996.

⁴³⁰ At the time, the Kim Young Sam government had only been in office for two weeks. For a good description of the first North Korean nuclear crisis, see: Wit, Poneman and Gallucci, 2004.

⁴³¹ In 1993, President Kim Young Sam had asked China's Foreign Minister and Vice Premier, Qian Qichen, to coax the DPRK to remain in the Nuclear Non-Proliferation Treaty (NPT) (Japan Economic Newswire, 1993). ROK foreign minister Han Sung Joo also consulted numerous times with Qian, seeking to encourage the PRC to pressure the DPRK to give up its nuclear program (Snyder, 2009, p. 86). Also, at the beginning of the First Korean nuclear crisis in March, 1993, Kim Young Sam authorized the US to speak directly to the DPRK about denuclearization. However, there were also fears within the Kim administration that denuclearization talks might lead to a secret deal concerning a peace treaty. For this perspective, see Han, 2000-01.

⁴³² And, while China did not fully support the ROK's goals over the future of the Korean Peninsula, the ROK was also fearful of the US arriving at a secret agreement with the DPRK as that might lead to diminished ROK influence over a united Korea. Concern that negotiations over the DPRK nuclear crisis by other parties might lead to diminished ROK influence over the future of the peninsula motivated President Kim's proposal of a Four Party talks framework involving the ROK, DPRK, the US, and China. First proposed by Kim in August 1995, but rejected by the DPRK then, they were re-proposed jointly with President Clinton in 1996, and were meant to bring the ROK back into the discussions with the DPRK. The 1996 Unification White Paper notes one of the motivations behind the Four Party Talks: "that discussion of the peace arrangements must be initiated by the two Koreas while separate negotiations between the United States and North Korea must be avoided." (Ministry of National Unification, 1996, p. 58).

As the DPRK drama unfolded, the Kim Young Sam administration and Korean elites began to realize that their near-term interests vis-à-vis North Korea accorded with China's views to the extent that China wanted to avert a North Korean collapse. This understanding was reached especially after severe flooding in 1995 and 1996 caused an unprecedented famine, leading the ROK to join China in providing food aid to the DPRK—the first time that the South had assisted the North since the Korean War.⁴³³ Convergence with Beijing on the benefits of avoiding a complete DPRK collapse brought the dissonance of views with Washington over how to deal with Pyongyang into sharper relief.⁴³⁴

The ROK engaged China while concurrently hedging against regional contingencies, of which China-related ones were just one possibility. This hedging was motivated long-term strategic thinking, and resulted in procurement efforts driven by requirements of a re-unified Korea's ability to counter regional threats in the absence of US military support.⁴³⁵ While the ROK's force structures

⁴³³ For both the elites and populace of South Korea, images of famine in the North elicited significant sympathy, disarming the North as a threat for years to come. For more on the DPRK famine, see Oberdorfer, 1997, p. 370. The first round of talks on South Korea's provision of rice to the North were held in Beijing from June 17 to June 21, 1995. See Ministry of National Unification, 1996, p. 114.

⁴³⁴ The details of friction between Korea and the US over how to resolve the nuclear crisis are too involved to be reproduced here. However, differences between the Seoul and Washington were exacerbated by significant wavering within the Kim administration over how to approach the DPRK threat. President Kim Young Sam was noted for inconsistencies over how to deal with North Korea, varying from warning the U.S. not to trust North Korea and to respond harshly, to being soft on North Korea a few months later by criticizing the Clinton administration of being taking too hard of a line. See Sanger, 1994. One analyst close to opposition leader Kim Dae-Jung commented that Kim Young Sam's policies regarding the DPRK have wavered 16 or 17 times between 1993 and 1996. See Braude, 1996. Signals coming from the Blue House alternated between being too hawkish and dovish towards North Korea (Cronin, 1994). Partly due to ROK indecisiveness, the US took the lead in resolving the crisis, which did not please the Kim government. In the end, ROK and Japanese elites were highly critical of the way in which the 1993-1994 nuclear crisis was resolved and with the US-DPRK Agreed Framework of 1994, which in Seoul's perspective, was brokered by Washington and Pyongyang without their appropriate involvement; but required that Seoul and Tokyo contribute to building light water reactors in North Korea (Levin, 2004, p. 36). Similarly, the ROK leadership was deeply alarmed over the US' goal of denuclearization even at the cost of a massive military conflict—an objective made clear since Washington considered a military strike on the DPRK's nuclear facilities in 1994 independent of UN authorization (Smith, 1994). The ROK also felt it was not adequately consulted by the US when it had considered the military option (Chung, 2007, p. 86. See also footnote 64). For more about the ROK-US alliance, also see: Easley, 2006.

⁴³⁵ Jane's Information Group, 1998c. Requirements for a post-reunified Korea were put on hold after the 1997 Asian financial crisis hit Korea. As a result, procurement requirements were modified in 1998 to focus on countering DPRK threats. After the economy improved in 1999, defense planners resumed procurements and

were configured to defeat a North Korean invasion during the 1980s, acquisitions in the 1990s were geared towards deterring and defeating conventional air and maritime threats of a non-specific nature.⁴³⁶ The ROK navy's commissioning of seven lightweight submarines did appear to be mostly done with the DPRK in mind, yet plans were also made during the Kim Young Sam era to construct a new class of destroyers—the KDX class—that matched the performance and capabilities of existing Japanese destroyers, and planned PRC vessels.⁴³⁷ To accommodate the majority of the ROKAF's F-16 fighter jets, the military also opened a new, sophisticated air base in Sosan in 1997, along the western coast south of Seoul.⁴³⁸ The opening of Sosan air base, while useful for air defense against the DPRK threat, would also have been a deterrent against other regional powers such as China.

Seoul's defense expenditures increased gradually during this period, but declined as a portion of its GDP. Increased spending was devoted to qualitative as opposed to quantitative improvements, and the decline of spending as a percent of GDP should not be seen as a disregard for national security. Instead, the proportional decline reflected the ROK's rapidly growing economy relative to its defense budget. (See figures 3.1 and 3.2 below)

Official statements this period tended to reflect China's near-term utility in stabilizing the Korean Peninsula, and accordingly indicated low levels of concern about the uncertain orientation and

requirements to reflect the needs of a re-unified Korea to confront unspecified, regional threats (Jane's Information Group, 2002).

⁴³⁶ Acquisitions plans set in motion during the Roh years continued during the Kim era. In the late 1980s and early 1990s, the ROK navy had just ordered lightweight submarines from Germany, and otherwise possessed only midget submarines that could only be used in coastal waters. Its destroyers consisted of a fleet of ships that had been operating since the 1940s. The early 1990s also witnessed efforts to bolster Korea's air force and air defenses through the implementation of the Korea Fighter Program (KFP), which was designed to develop an indigenous fighter jet, and the intention of acquiring F-16s from the US, then manufacturing them under license in Korea (Jane's Information Group, 1991. See South Korea Section). Clearly, most of its maritime assets were devoted to coastal defense, reflecting the larger strategic military view that its primary threat was land-based, and emanated from the DPRK. Relative to the forces of some of its neighbors, such as the DPRK, Japan, China or Russia, its inferior maritime presence was also justified by the US security umbrella.

⁴³⁷ Between 1992 and 1998, the ROK navy commissioned seven lightweight (1,200 tons) submarines designed mostly for coastal and regional defense and antisubmarine warfare. (Jane's Information Group, 1996, see South Korea section). As the DPRK was known to field midget submarines, these ROKN acquisitions seem suited to counter a DPRK maritime threat. Additionally, the ROK's defense expenditures during this period tell only part of the story of its strategic thinking. It embarked on qualitative improvements, increasing military expenditures in absolute terms, but because of the nation's growing economy, the expenses shrunk as a portion of GDP.

⁴³⁸ Jane's Information Group, 1998b.

purposes of China's military rise. Language discussing China in the Ministry of National Defense's (MND's) *Defense White Papers* was mostly neutral in tone and descriptive, noting percentage increases in defense spending. While the ROK did express some concern about the PRC's moves to absorb Taiwan and the PLA's rising expenditures, these cautionary statements have been counterbalanced by language highlighting the PRC's positive diplomatic contributions to the Korean Peninsula peace process in 1994-95.⁴³⁹ Only in 1998, several years after China's militarily threatening behavior in the Taiwan Straits during 1995-96, did the ROK MND express muted concern about the PRC's intentions to absorb Taiwan.

Overall, Korea's political embrace of China was a double-edged sword which brought an element of long-term uncertainty. On the one hand, China was willing to side with the ROK against the DPRK over issues that were of more symbolic importance to the ROK. On the other hand, Beijing likely harbored long-term interests in maintaining its sphere of influence on the Korean Peninsula and managed its relations with the DPRK in a manner which allowed it to retain influence.⁴⁴⁰

⁴³⁹ Ministry of National Defense, 1994, p. 48 for statement about the PRC's ambitions over Taiwan; Ministry of National Defense, 1998, p. 43, for language about actual military expenditures. The White Paper notes that as long as China adheres to its stated path of economic development, reform and openness, it will likely have a "positive impact on the stability and unification of the Korean peninsula." Ministry of National Defense, 1997, p. 46.

⁴⁴⁰ For example, when it came to pressuring the DPRK to open its nuclear facilities to IAEA inspections, China was unwilling to do so—most likely because it did not want to exacerbate bilateral ties after it had recognized the ROK in 1992. See Far Eastern Economic Review, 1994.

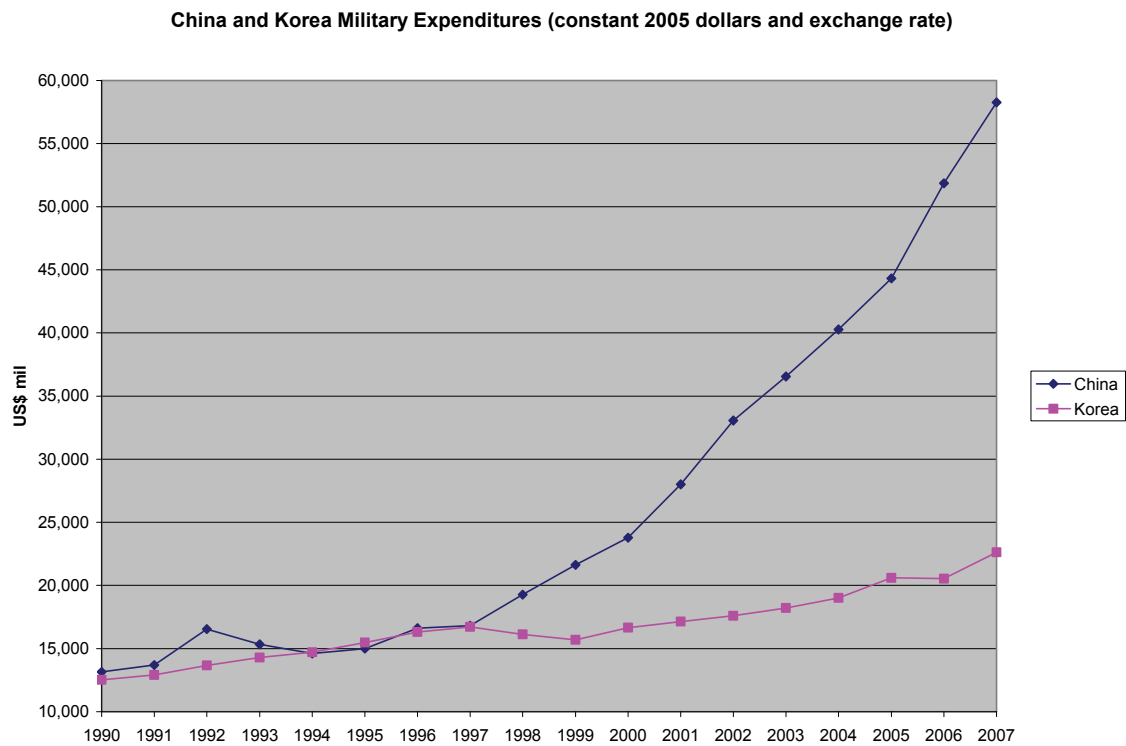


FIGURE 3.1
Source: SIPRI⁴⁴¹

⁴⁴¹ Stockholm International Peace Research Institute (SIPRI), 2009.

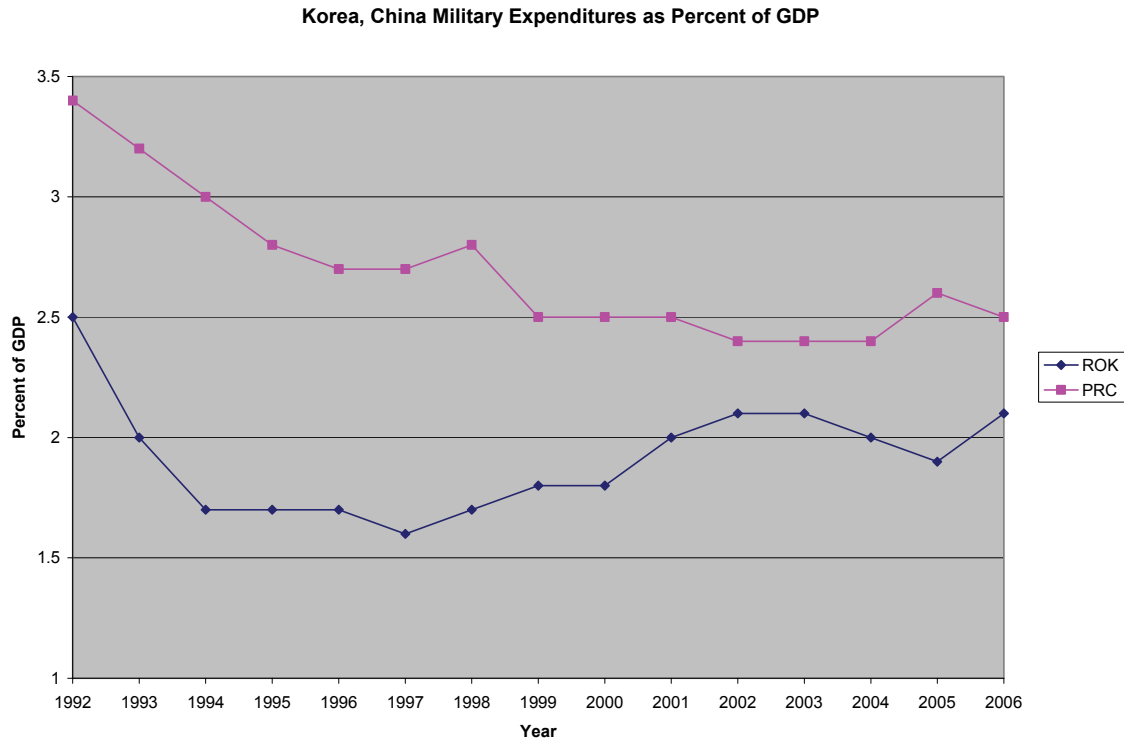


FIGURE 3.2
Source: SIPRI

2. Korea's Economic and Trade Policy Response to China: 1992-1998

Korea's post-normalization economic relations with China tell a story of increased economic interdependence. Growth of mutual trade and investment accelerated after the establishment of bilateral diplomatic ties, increasing Seoul's dependence on Beijing as a vehicle for Korea's own prosperity and economic growth. A few figures illustrate this trend. By 1993, China had become Korea's third largest trading partner. Seoul also held an early advantage with its trade with Beijing, accumulating a \$US 2.5 billion trade surplus with China in 1993.⁴⁴² And between 1992 and 1998, total bilateral foreign trade grew 116%.⁴⁴³ Indeed, as Figure 3.3 (below) illustrates, the ROK became more reliant on the China market for exports, as exports and total trade with China as a percentage of Korea's total exports and total foreign trade grew rapidly in the early 1990s.

⁴⁴² Japan Economic Newswire, 1994.

⁴⁴³ Author's calculations based on CEIC Data. Data for China includes Hong Kong, as most trade going to Hong Kong is bound to/from China.



FIGURE 3.3
Source: CEIC Data⁴⁴⁴

The complementarity of China's low labor costs with Korea's technological advantages meant that China was a magnet for Korean investment and an engine for the ROK's own growth during this period.⁴⁴⁵ Numerous small and medium sized Korean enterprises contributed to expanding the bilateral commercial relationship by establishing a presence in the PRC to take advantage of lower labor costs. Typically, these Korean-owned enterprises would import manufacturing and other capital equipment from Korea, and export manufactured goods back to Korea and elsewhere. Korean *chaebol*, who played a role in driving normalization of relations with China, also established their

⁴⁴⁴ CEIC Data, 2008e.

⁴⁴⁵ For example, in 1996, ROK's largest export to China was textiles which were used in China's clothing industry (Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 73).

presence in China at this time.⁴⁴⁶ Naturally, investment levels also grew during this period, with FDI to China expanding significantly between 1992 and 1998.⁴⁴⁷ The importance Korean businesses placed on China can be shown by the fact that, as a percentage of total outward FDI, more than one quarter went to China in 1995. (See Figure 3.4, below).

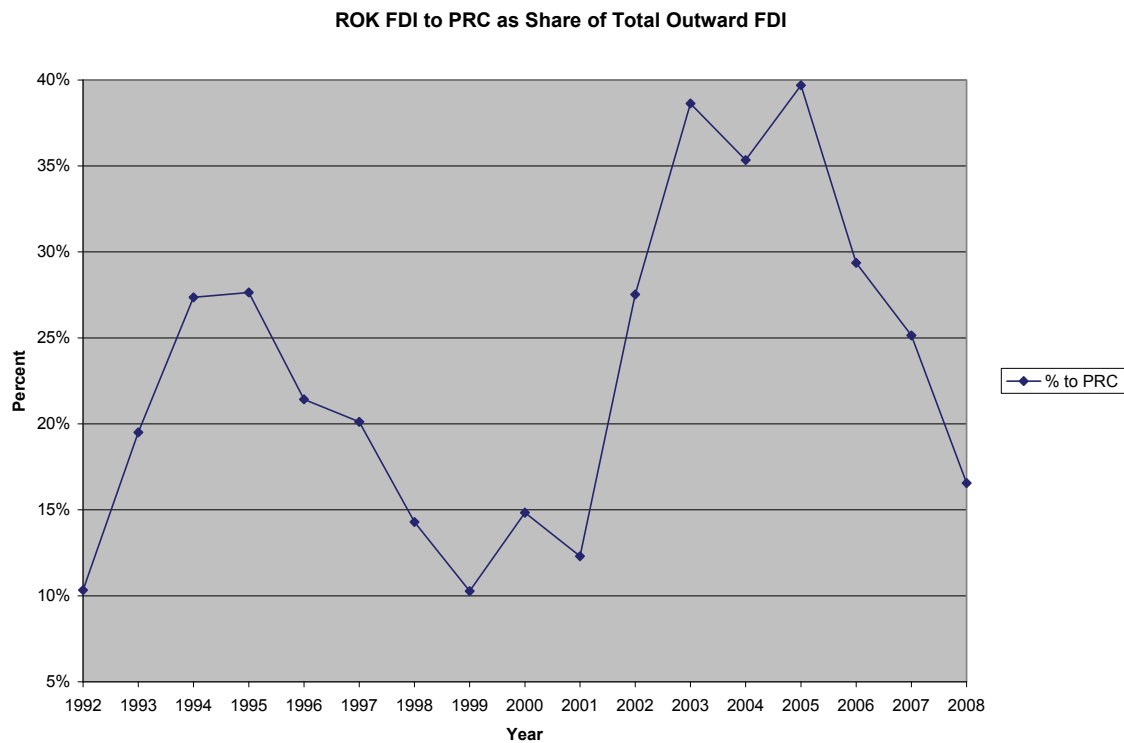


FIGURE 3.4
Source: Korea Eximbank⁴⁴⁸

The ROK leadership played an instrumental role in cultivating the economic relationship with China, with President Kim Young Sam engaging in summit diplomacy to bring about deeper commercial and scientific cooperation.⁴⁴⁹ The ROK encouraged investment in China, particularly in the

⁴⁴⁶ Samsung, one of the ROK's most venerable and politically connected *chaebol*, announced the construction of a \$100 million production center in Tianjin to manufacture cameras, camcorders, and other consumer electronics. (Gavin, 1994).

⁴⁴⁷ Korea Eximbank, 2010. Figures do not include FDI to Hong Kong.

⁴⁴⁸ Ibid. Does not include FDI to Hong Kong.

⁴⁴⁹ In Kim's 1994 visit to Beijing, he signed agreements with Chinese President Jiang Zemin to strengthen economic ties. This included agreements on industrial cooperation and bilateral tax agreements (Japan Economic Newswire, 1994).

provinces near the Korean Peninsula—Shandong and Liaoning. Economic diplomacy included direct grant and financial assistance to China, with direct grants reaching almost 10% of the ROK's total grant making during 1995. Loans were another dimension in which the ROK government sought to weave a web of economic ties with China, and to bolster ROK exports as well. In 1994, loan commitments were 26% of total ROK loans made, with \$25 million committed to supporting two projects—a harbor bridge in Tianjin, and an airport project in Yanji.⁴⁵⁰ See Figure 3.5 below for more information.

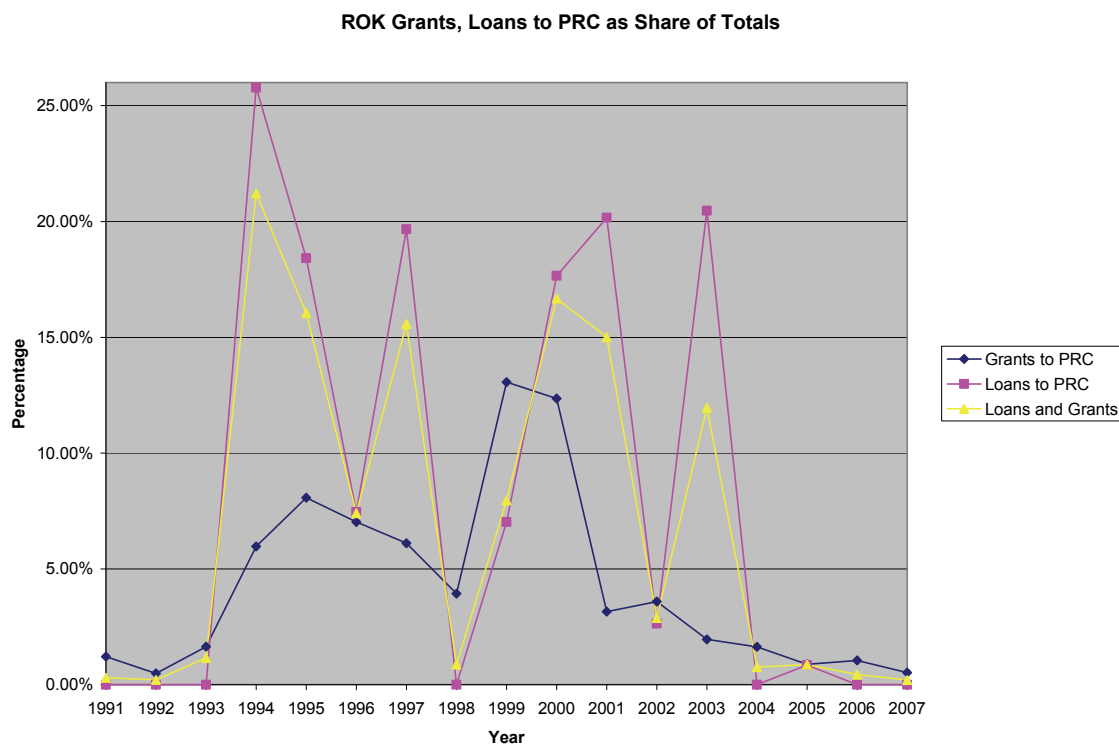


FIGURE 3.5
Source: Ministry of Foreign Affairs and Trade, Korea;⁴⁵¹ OECD⁴⁵²

⁴⁵⁰ Prices are in current dollars (that is, dollars during 1994, not adjusted for inflation or exchange rate fluctuations).

⁴⁵¹ Ministry of Foreign Affairs and Trade, 2011.

⁴⁵² Organisation for Economic Cooperation and Development, 2009.

3. Background: Major Determinants of Korea's Response to China, 1992-1998

The Evolving DPRK Threat and Changing Nature of the US Alliance: Impact on Korea's China policy

The evolving DPRK threat and changing nature of the US-ROK alliance were two broad variables which played a significant role in shaping Seoul's policies towards Beijing during much of the 1990s. Because a major contributor of the tension in Korea's relationship with its primary security guarantor—the US—arose from differences over how to confront the DPRK nuclear crisis, these two determinants are presented together.

Changes in US strategic plans after the Cold War were one factor in nudging the ROK towards greater political engagement of China. Washington planned a phased reduction of US forces in the ROK.⁴⁵³ Another important development consistent with the post Cold War US realignment was the transfer of peacetime operational control (OPCON) of Korean forces from a US commander to the Chairman of the ROK Joint Chiefs of Staff in December, 1994.⁴⁵⁴ These re-calibrations in the alliance, while supported by politicians in the ROK who harbored anti-US military sentiments, were one factor in encouraging the ROK to pursue a more independent defense and security posture—often called “Koreanization” of Korean defense.⁴⁵⁵

⁴⁵³ For a description of the US' changing defense strategy in East Asia, see what is commonly referred to as the 1992 East Asia Strategy Report, US Department of Defense, 1992.

⁴⁵⁴ Ministry of National Defense, 1996, p. 114. Also, these changes took place as part of ongoing discussions to increase the ROK's burden-sharing in the bilateral alliance.

⁴⁵⁵ The “Koreanization” of Korean defense had already been underway when Kim Young Sam was elected president. USFK personnel that had occupied important positions were being gradually replaced by their Korean counterparts. For example, one hundred USFK troops responsible for guarding the Joint Security Area in Panmunjom, in the DMZ, were replaced with Korea troops in late 1992 (Ministry of National Defense, 1994, p. 119).

Differing views of how to confront the DPRK threat were an even greater factor in exacerbating bilateral ties.⁴⁵⁶ South Korea's ambassador to China, Hwang Byung-Tae, verbalized these sentiments when he questioned the wisdom of ROK's reliance on the US.⁴⁵⁷ Ironically, while frustration with the US pushed the ROK towards a more independent foreign policy, allowing it to expand political ties with China, such ROK policies would not have been possible without the continued US security guarantee and commitment to ensuring stability in the region, especially during and after the 1993-1994 DPRK nuclear crisis.⁴⁵⁸ And, despite leveraging its ties with China to achieve its strategic goals, Korea was still firmly in the US strategic camp during the 1990s, and still formulated its military and strategic plans under the umbrella of the US security umbrella.

⁴⁵⁶ Specifically, while Washington was more concerned with strict de-nuclearization in North Korea, Seoul's interests were driven less by concern over the immediate dangers of Pyongyang becoming a nuclear state, and more by a sobering knowledge that it would have to live with its northern neighbor—reunited or not, nuclear or not—for the long run. In this sense, a collapsed or militarily destroyed but denuclearized DPRK seemed even more alarming to the ROK elite than a nuclearized, but stable power. China and the ROK were primarily concerned with the economic and humanitarian crisis which would ensue after a sudden collapse of the DPRK. And Korea's interests on the Peninsula were overlaid with its larger goals of reunification at some unspecified point in the future. Viewing the North Korean issue as one which concerned the very sovereignty of an eventual, unified Korea, the ROK feared that direct US-DPRK negotiations might jeopardize its strategic options, and interfere with its own plans for inter-Korean rapprochement. The ROK's unification strategy, which President Kim outlined in 1994, was called the Korean National Community Unification Formula (KNCU Formula), and was grounded in three principles: that unification be achieved without outside interference, that it be achieved peacefully, and under the principles of democracy and freedom. The actual implementation of the KNCU Formula was to occur in a gradual process, and its first step—a planned summit between Kim Young Sam and Kim Il Sung—had to be scuttled due to the sudden death of Kim Il Sung in 1994 (Ministry of National Unification, 1996, pp. 44-50). While the Kim administration amended the KNCU Formula in subsequent policy pronouncements, its broad principles remain to this day.

⁴⁵⁷ During a press conference on March 29, 1994 concerning Kim Young Sam's visit to China, Ambassador Hwang noted that ROK diplomacy "should break out of its heavy reliance exclusively on the United States." While he was forced to retract his remarks several hours later, his comments were tacitly endorsed by a large number of ROK elites. See Chung, 2007, pp. 90-91.

⁴⁵⁸ For example, after the onset of the first DPRK nuclear crisis, the US decided to postpone the planned drawdown of its troops (US Department of Defense, 1995). As the Pyongyang threat escalated, President Clinton ordered the deployment of Patriot missile batteries to defend Seoul from DPRK ballistic missile attacks. And in spite of diplomatic tensions at the elite levels between Washington and Seoul, bilateral military cooperation remained strong. Military exercises with deep historical roots, such as the Ulchi Focus Lens and Foal Eagle, continued unabated. The Team Spirit exercises, conducted annually since 1978, were of particular significance because of its scale, involving up to 200,000 combined personnel from the U.S. and ROK, but, for the same reasons, also feared and loathed by North Korea. Note that Team Spirit exercises were not conducted in 1992, and were last held in 1993 in order to maintain a more positive political atmosphere during negotiations with North Korea over resolving the nuclear crisis. Ministry of National Defense, 1996, p. 82. Other exercises continued. The Ulchi Focus Lens is a joint command post exercise involving computer simulations, whereas the Foal Eagle is the largest US-ROK joint and combined field exercise. (Levin, 2004, p. 16, FN 17) In addition, the ROK forces have participated in multilateral RIMPAC exercises involving the US, Canada, Australian and Japan in 1990, 1992, 1994 and 1996.

China's Growing Embrace of South Korea – 1992-1998

China's policies towards South Korea were another factor in encouraging Seoul's growing friendship with Beijing, reinforcing positive bilateral atmospherics arising from coinciding ROK and PRC interests over North Korea during this period.⁴⁵⁹ Actions which reassured the ROK over China's intentions on the Korean peninsula included landmark statements by Chinese officials circumscribing China's defense commitment to the DPRK under the terms of that alliance. During President Jiang's summit visit to Seoul in 1995, a PRC foreign ministry official implied that Chinese forces would not automatically come to the DPRK's defense if the DPRK attacked the ROK.⁴⁶⁰ On paper, China remained the DPRK's closest ally, but it grew increasingly frustrated with the regime in Pyongyang after 1997, and began to side more often with Seoul.⁴⁶¹

Quantitative and qualitative improvements in China's military capabilities indicated a possible, capability-based challenge to ROK security. From 1995 to 2000, China's military expenditures grew at an average annual rate of 9.76%.⁴⁶² Part of the increase in the late 1990s was backed by an important policy shift in the 1997 China National Defense Law, which intimated that future defense expenditures would be linked with rates of economic growth, invalidating previous statements that

⁴⁵⁹ Beijing's reasons for normalizing its relations with Seoul—to facilitate greater trade, increase Taiwan's international isolation, and diminish Pyongyang's never-ending requests for aid—meant that it too was motivated to foster deeper engagement with Seoul. See Snyder, 2009, p. 37, for PRC rationale behind normalization of ties with the ROK.

⁴⁶⁰ Kim, 2006b, p. 72.

⁴⁶¹ Snyder, 2009, p. 84. China's frustration with the DPRK stemmed from Kim Jong-Il's mismanagement of the economy and the flow of North Korean refugees into the PRC after the 1995-96 famine in the DPRK. Further evidence that the PRC was more considerate of ROK desires were demonstrated in one high-profile case of a North Korean defector—Hwang Jan Yop—who had sought refuge in the ROK consulate in Beijing. The PRC was forced to choose between its old ally in Pyongyang and new partner in Seoul. Eventually, China did agree to allow Hwang and his colleague safe passage to Seoul via the Philippines. For a description of the events playing out in Hwang's defection, see Oberdorfer, 1997, p. 399-406.

⁴⁶² Author's calculations based on SIPRI data, Stockholm International Peace Research Institute (SIPRI), 2009. Japanese analysis often cited double-digit growth rates using Chinese currency figures which (presumably) have not been deflated. For example, the 1994 *Defense of Japan* cites that the increase in the PRC defense budget in 1993 was 22%. However, using 2005 constant US dollar figures from SIPRI reveals an actual 7.3% decrease between 1993 and 1992.

China would not seek to increase its defense expenditures.⁴⁶³ The PRC also re-crafted its military doctrine to stress “local wars under high-technology conditions,” which had the practical effect of making qualitative improvements to its forces and reducing manpower.⁴⁶⁴ China backed-up this new military doctrine with procurements which included Russian Su-27 fighters, and a host of medium-range ballistic missiles which had the ability to reach the ROK.⁴⁶⁵

That China’s military doctrinal changes and qualitative equipment modernization was backed up by regionally threatening behavior suggests that China was certainly interested in expanding its strategic footprint throughout East Asia. For example, China’s military exercises and missile test firings during the 1996 Taiwan presidential elections, along with continued nuclear testing in 1995 and 1996, indicated the PRC’s willingness to use force in the region. And while the PRC did not encounter any direct territorial disputes with the ROK, its assertions of sovereignty over islands in the South and East China Seas evoked irredentist winds and alarmed nations throughout Asia.⁴⁶⁶

Despite the PRC’s growing military prowess and behavior which upset the *status quo*, it is important to stress that at no time was there a strong indication that China’s military modernization was geared against the ROK or other ROK interests.

⁴⁶³ This interpretation of the 1997 PRC National Defense Law comes from Heginbotham and Samuels, 1998, p. 181. Official Chinese government language on the law reads: “Pursuant to the National Defense Law and the Budget Law, and guided by the principle of coordinated development of national defense and the economy, the Chinese Government decides on the size and use of defense expenditures in an appropriate way to meet the demands of national defense in keeping with China’s economic development.” (Embassy of the People’s Republic of China in the Republic of Albania, 2008.) The 1995 PRC Defense White Paper states that “As long as there is no serious threat to the nation’s sovereignty or security, China will not increase its defence spending substantially or by a large margin.” (Information Office of the State Council of the People’s Republic of China, 1995.)

⁴⁶⁴ This doctrinal change is relevant to Korea to the extent that China was no longer preparing for a major conflict against the Soviet Union, but was instead focused on defending its regional interests.

⁴⁶⁵ By 1995, China was reported to have more than thirty of these aircraft. International Institute for Strategic Studies, 1993, p. 148. and International Institute for Strategic Studies, 1996, p. 181. PRC efforts to modernize its ballistic missile arsenal resulted in perhaps ten CSS-5 (DF-21) medium-range ballistic missiles, and the long-range, mobile launched DF-31, by 1995, putting the ROK well within their range (International Institute for Strategic Studies, 1995, p. 169).

⁴⁶⁶ Multiple nations have overlapping claims over the Spratly Islands and Paracels in the South China Sea. On July 8, 1992, Chinese troops landed and erected a marker on Da Lac. See International Institute for Strategic Studies, 1992, p. 139. In 1992, the PRC promulgated the Territorial Waters Act, stipulating that most islands in the South and East China Seas (such as the Senkakus or Diaoyus) belong to China. (Japan Defense Agency, 1993).

Turning to China's foreign economic and trade policies, Beijing's own economic liberalization and reforms provided the pull for greater investment from ROK.⁴⁶⁷ Various provinces and municipalities in the PRC provided generous terms and incentives to woo foreign investment. Those regions in closest proximity to the ROK—Liaoning and Qingdao Provinces—aggressively targeted South Korean investment and created the necessary infrastructure to facilitate business.⁴⁶⁸

Domestic Influences on Korea's China Policy – 1992-1998

For Korean elites and ordinary citizens alike, the 1990s were a decade of dramatic transformation and dynamic flux. Politically, Kim Young Sam's presidential election victory in 1992 symbolized a clean break with the past. He was the first president who had not been a former military officer, and given his own credentials as a democracy advocate who had been persecuted under the governments of Park and Chun, campaigned on a platform to reform the often corrupt linkages between the political elites and entrenched business interests.⁴⁶⁹ President Kim's vision for a "New Korea," or *shinhanguk*, called for reforms that would have altered the patterns of interaction among three nodes of Korea's domestic polity: the political elite, the dominance of conservative politicians, and business interests symbolized by the *chaebol*.⁴⁷⁰ In effect, Kim Young Sam had pledged a war against the pillars that sustained Korea's Asian developmental state type.

⁴⁶⁷ For an overview of China's frustrations with the DPRK and preference for the ROK as an economic partner, see Chanda, 1995.

⁴⁶⁸ During the mid-1990s, northern Chinese cities competed with established Special Economic Zones (SEZs) in southern China in attracting foreign investment. Because of their geographical proximity to Korea and Japan, northern coastal cities, such as Qingdao in Shandong, and Dalian in Liaoning, targeted wooed Korean and Japanese investors. For an example of how Rongcheng, Qingdao, attracted South Korean capital, see China Daily, 1998. For an example of Qingdao's preparations, see Tuinstra, 1996. For how China's northern provinces rushed to seek foreign investment, see Ong, 1993.

⁴⁶⁹ With over thirty years of democratic activism behind him, Kim Young Sam had pledged to reform the Korean system of governance during his presidential campaign, and placed greater emphasis on reshaping Korea's domestic policies than foreign affairs.

⁴⁷⁰ Hyun, 2008, p. 56. Kim's vision for a New Korea was to be achieved through four basic reforms: civilianization of government; financial transparency for high-ranking government officials and National Assembly members; a "real-name" financial system barring fictitious names on bank accounts; political fundraising, party and election procedural reforms

The actual implementation of such reform efforts, though, caused a political firestorm throughout Korea after Kim's inauguration in early 1993.⁴⁷¹ Subsequent domestic political and external security challenges brought on by the DPRK meant that his administration was unable to deliver on campaign promises to reform the domestic political economy by addressing collusion between the state and *chaebol*.⁴⁷² In fact, Kim's attempts to restructure the *chaebol* backfired due to their entrenched political influence; political intervention may have actually increased the influence of the *chaebol* during Kim's era, especially the *chaebol* best connected with political elites.⁴⁷³ Such collusion

⁴⁷¹ Carried out without much political finesse or tact, his decree to top officials to disclose their finances backfired as the public and media learned of their high levels of wealth. Kim's civilianization of the military by summarily firing top generals and disbanding of the *Hanahoi*, an elite clique of Military Academy graduates that included members who held key positions in former governments and included Chun Doo Hwan and Roh Tae Woo, caused widespread animosity between the government and military. General mismanagement and an emphasis on idealism rather than leadership led to high turnover in cabinet posts, forcing the Kim government to lose policy direction and resort to leadership by reacting to whatever domestic or international crises arose. An unconfident Kim administration also accounted for frequent wavering over the North Korean nuclear crisis. For an overview of the Kim Young Sam administration, see Kim, 2007, Chapter 7, Kim Young Sam. One important consequence of Kim's "real-name financial system" reform was the downfall of former presidents Chun Doo Hwan and Roh Tae Woo in the public eye. In announcing his real-name financial reforms, individuals could no longer deposit funds under fictitious names, or secretly through the accounts of others. Furthermore, income taxes would have to be paid on interest bearing accounts. These reforms were meant to stamp out one dimension of corruption which had characterized the crony capitalism of Korea that came along with rapid economic growth of the 1970s and 80s, but had the unintended consequences of indicting former presidents Roh and Chun. As it turned out, Roh had diverted US \$14 million into another account upon leaving office in 1993, and subsequent investigations revealed that Roh and Chun had each amassed over a billion dollars in various slush funds and properties. From March until August 1996, the "trial of the century" took place where Roh and Chun were tried, and both found guilty. Chun was sentenced to death, Roh given twenty two years, and former generals were given lesser sentences. Business leaders who contributed millions to Roh and Chun were released on grounds that they were critical to the functioning of the economy. Oberdorfer, 1997, pp. 376-382, provides an excellent summary of these events.

⁴⁷² Part of Kim's strategy to break the collusive state-chaebol relationship was to reign in the power of the bureaucrats. While Kim reduced bureaucratic guidance as part of his efforts of deregulation and liberalization (to increase the ROK's international economic competitiveness), political intervention substituted for diminished bureaucratic guidance. And, Kim's financial liberalization and deregulation efforts led the *chaebol* to enter new business areas that were previously off-limits, with the unintended consequence that many *chaebol's* financial situations worsened. Lee, 2005.

⁴⁷³ Reduced bureaucratic guidance resulted in increased political oversight of industrial and economic policy, making it easier for politicians to succumb to lobbying by entrenched *chaebol* interests. Kim notes that the Samsung Group's adept use of political pressure enabled Samsung to enter the already over-invested automobile business. See Kim, 2007, p. 275. Other examples of Kim's efforts to reduce the influence of the bureaucrats include the firing of Cho Soon, the Bank of Korea's governor, immediately after Kim's inauguration. Kim had disagreed with Cho over interest rate cuts. See Kim, 2007, p. 273-4.

between government and industry led to overcapacity and debt, contributing to Korea's economic woes during the Asian financial crisis of 1997.⁴⁷⁴

While progressive politicians began to increase their influence, conservative politicians led by Kim Young Sam continued to dominate, along with the conception of security in economic terms. This meant that there was more continuity than change in the ideational determinants of Korea's policy response to China. For example, one of Kim's major policy objectives related to augmenting Korea's global economic stature—for the ROK to join the Organization for Economic Cooperation and Development (OECD).⁴⁷⁵ This objective necessitated continued economic growth which was also part of his *seggyewha*, or globalization strategy. To realize such economic growth, Korea had to expand its economic production to cheaper locations, and saw exports as a way to realize another economic miracle.⁴⁷⁶ China's appetite for Korean goods beckoned as a savior for the ROK's economic woes in the early 1990s. As the *chaebol* were the only internationally competitive businesses,⁴⁷⁷ the government wound up relying on the *chaebol* even more to realize its economic goals. Businesses and other economic stakeholders within the ROK thus maintained a sizable voice over foreign policy, especially in regards to Seoul's agenda vis-à-vis Beijing.

In summary, while Kim Young Sam was initially a popular leader hailed as a crusader against corruption, his efforts at political reform often backfired and created an atmosphere of general policy paralysis that greatly hamstrung his efforts to carry out any enduring or cohesive remedies to break the collusive relations between political elites and the *chaebol*.⁴⁷⁸ The maintenance of the structural aspects of Korea's domestic regime, combined with a continuation of equating economic growth with

⁴⁷⁴ Indeed, widespread public perceptions were that the *chaebol* contributed to the 1997 financial crisis in Korea (Lee, 2005).

⁴⁷⁵ So important was this objective to Kim Young Sam that he manipulated the exchange rate of the won. In his quest for the ROK to join the OECD, which he announced in 1995, the government was looking more for international prestige rather than establishing solid economic fundamentals. It was later revealed that the government had deliberately attempted to overvalue the won so that Korea would achieve a per-capita GNP of \$10,000 US by 1996.

⁴⁷⁶ Despite increasing levels of exports during the early 1990s, Korea ran a net current account (trade) deficit of US \$4.8 billion in 1994. (Clifford, 1995). Part of the ROK's goals was to change its manufacturing sector away from labor-intensive products, and the other was to diversify its export market away from the US and Japanese markets (Shim, 1993).

⁴⁷⁷ Clifford, 1995.

⁴⁷⁸ Kim Young Sam ended the years of his presidency being accused of the very same corrupt practices he had rallied against.

national prestige and security, meant that Korea still embodied many of the properties of an Asian developmental state.

ASSESSING KOREA'S RESPONSE TO CHINA AGAINST STRUCTURAL REALISM, 1992 - 1998

For the years 1992-1998, do explanations grounded in structural realism offer a convincing explanation of Korea's policy stances towards China? This section analyzes material in the above paragraphs against the predictions of structural realism, and concludes that overall, structural realism explains some of Korea's political and military responses to China, and some of its economic responses to China.

Arguments of structural realism relate to explaining behavior that is most often motivated by external security threats. During this period, is there evidence to suggest that China was a threat to Korea? Were there points of conflict between the two powers, and were there threats to the ROK that China was able to help mitigate? On balance, China posed an immediate opportunity as opposed to a threat, serving as a dampening force against a volatile DPRK. While China's nuclear tests, military exercises and missile test firings in the Taiwan Straits were destabilizing, they did not immediately or imminently threaten the ROK.

If Korea's policy response to China was consistent with the predictions of structural realism, then one would expect to see the ROK undertake a utilitarian approach of maximizing its security and flexibility through maintaining good relations with both China and the US. One might also expect military procurements and alliance behavior commensurate with preparations for a long-term scenario of a re-unified Korea needing to protect itself. The expected policy would be neither balancing against China through efforts to counter Chinese capabilities/binding closer to the US and other regional powers, nor bandwagoning through abandonment of the ROK-US alliance in favor of China. A realist would also expect to see some degree of economic engagement so long as Korea were the benefit of such exchanges, and little in terms of restrictions on economic activity.

Korea's political and military policy stances towards China appear to match the predictions of structural realism. China did not engage in behavior which threatened the ROK, and in fact played an important role in supporting ROK interests on the Korean Peninsula over those of its ally—the DPRK. As a realist would assume, Korea aimed to maximize its security vis-à-vis its most lethal threat—the DPRK—through enrolling the PRC as a partner. Concurrently, Seoul maintained its military and alliance deterrent against Pyongyang through reaffirming its alliance with Washington.

Structural realism also explains some of Korea's military procurements and deployments, which at first blush appear to diverge from realist predictions of ROK security policy stances towards China were it not seen as a threat. However, hedging by the ROK against unspecified regional threats converges with realist expectations of state behavior when one considers its long-term strategy of defense preparation for a unified Korea. Under a unified Korea, China would be seen as less useful since the objective of mollifying the DPRK will have already been accomplished.

During the 1992-1998 period, ROK military deployments and alliance behavior can also be viewed as preparations against anticipated future threats to either a divided or a re-unified Korea, *given information occurring during the 1992-1998 period*. In other words, a best-guess of what future threats a divided Korea would face in the medium term, or a re-unified Korea would confront in the long term, can be made by assessing the likely trajectory of indicators which transpired during the 1992-1998 period. Examples of such indicators would include China's nuclear testing, military modernization, or territorial disputes with Japan.

To what extent were ROK internal and external balancing behavior vis-à-vis China explained by structural realism? The panoply of external security variables that confronted Korea means that there is no direct way of measuring the degree to which its security policies were targeted exclusively against China.⁴⁷⁹ Yet some general claims can be made as to whether Korea's military modernization (internal balancing) and alliance behavior (external balancing) indicated balancing and preparation for the potential of China to become a long-term threat.

⁴⁷⁹ For example, resorting to military expenditure data is informative, but not necessarily useful.

The bulk of the ROK's military deployments and acquisitions during this time indicated preparations which would be more useful against China-related contingencies than against those associated with a DPRK invasion. Plans to produce the KDX destroyers could certainly be useful against China's naval forces, and the opening of the sophisticated Sosan air base in 1997, to accommodate most of the ROKAF's F-16 fighters, are consistent with realist arguments viewing China as a possible long-term threat.

Seoul's alliance behavior represented a hedge against future uncertainties, and also comport with realist predictions given China's short-term utility and potential long term threat. Despite strains in the US-ROK alliance which were highlighted in the course of the DPRK nuclear crisis, Seoul continued to align itself closely with Washington—just as it had during the Cold War. Military exercises continued, and the ROK augmented its financial support for the alliance (burden sharing). At the same time, China did not add to the already extant DPRK threat, meaning that the Kim Young Sam administration's support of gradual reductions of US forces, and peacetime operational control (OPCON) transfer from the US in 1994, are explained by realism.⁴⁸⁰

Are Korea's economic policies towards China explained by structural realism? Under structural realist precepts, the ROK would certainly not have encouraged trade and investment in China had it posed a threat. Given that this was *not* the case, efforts in Seoul to encourage investment in and commercial activity with Beijing do not run counter to realist predictions. Trade with and investment in China yielded significant economic benefits for the ROK, and therefore comport with realist logic of how states pursue goals other than survival under conditions of low or moderate threat.

ASSESSING KOREA'S RESPONSE TO CHINA AGAINST DOMESTIC GRAND STRATEGY EXPLANATIONS, 1992-1998

The domestic grand strategy theory purports to explain Korea's behavior towards China based on conceptions of security which are broader in scope than those assumed under structural realism.

⁴⁸⁰ Initial discussions for transfer of peacetime operational command (OPCON) were apparently broached by the ROK.

Based on variation in state type, the more a state approaches the Asian developmental state ideal type, the more it is expected to subsume military/territorial security interests in favor of economic interests *if* the Asian state is economically strong relative to China. And the greater its developmental state characteristics, the greater its tendency to enmesh itself economically with China. Two questions then must be asked: What type of state was Korea during this period? What was Korea's economic strength relative to China?

During the 1992-1998 period, Korea fell into the Asian developmental state type. President Kim Young Sam had implemented reforms aimed at toppling a key structural feature of the Asian developmental state—close ties among the political and business elites. However, poor execution of these reforms, and the exigencies of the 1997 financial crisis, meant that the very structure Kim had sought to change had to be relied upon once again. Ideationally, economic growth was still the imperative of the day, and achieving a GDP target of \$US 10,000 per capita (nominal basis) to secure entry into the OECD was seen as a means to national prestige. In sum, Korean elites were sensitive to external economic threats and opportunities.

In terms of relative economic strength, Korea possessed a comfortable lead over China if one considers GDP per capita on a purchasing power parity (PPP) basis. China began to narrow the gap between 1992 and 1998, but by 1998, Korea's GDP per capita (PPP) was still over seven times that of the PRC. Other surrogate indicators confirm Korea's lead: Korea spent over three times the amount of its GDP on R&D than China did, and employed five times more researchers in R&D per million. Korea's economy was also trade complementary with that of China.⁴⁸¹

Under these circumstances, how much of Korea's response to China does domestic grand strategy theory explain? Given that Korea was an Asian developmental state, and was economically and technologically stronger than China, it would have been expected to assume a greater degree of military risk vis-à-vis China, and to have subsumed security interests in favor of economic ones. In weighing the competing goals of economic strength and military security, it would have accorded both high priority, viewing external threats through "development" lenses. Korea would have also

⁴⁸¹ See Appendix, Figures A.1, A.2 and A.3.

been expected to align towards China in both political/security and economic domains—integrating its production chains and commercial activity with those of China.

Korea's political and economic policy responses to China during the same period do seem to fit the predictions of domestic grand strategy theory. It enhanced military cooperation with Beijing, and recruited China to assist in its goals of improving the security situation on the Peninsula. At the same time, it aggressively promoted trade with and investment in China.

In broad strokes, Korea's political and economic response to China appears to have correlated with the predictions of domestic grand strategy theory. However, is there any specific evidence linking the independent variables—state structure of corporatist bargaining agreements between politicians and business elites (embodied by the *chaebol*), and norms which prioritized economic strength and technological prowess—to actual policy alignment towards China?

One concrete example of linking ODA to Korean industrial and trade growth is found in efforts to nurture the domestic auto industry. Early ROK ODA to the PRC was linked to investments in the auto industry, facilitating the market entry efforts of Korean automakers into China.⁴⁸² And during the Kim Young Sam administration, Samsung—a powerful *chaebol*—wielded influence to the degree that it was allowed to enter the auto industry, an already overcrowded market.

Corporatist bargaining arrangements between political elites and businesses meant that Korea's business interests and *chaebol* were closely tied with the state's initiative to encourage trade with China, and its *seggyehwa* goal. This objective also paralleled Kim Young Sam's desire to leverage the new official relationship with China to assist with the ROK's security goals on the Peninsula. However, the power of policy inertia behind the Asian developmental state structure, combined with conceptions of security in economic terms, meant that voices advocating a tougher stance on China to punish the DPRK were stymied. While Kim had hoped to leverage newfound relations with China in hopes of obtaining support to lean on the DPRK over the nuclear issue, Kim was also aware

⁴⁸² Cha, 1999b, footnote 29.

that the ROK's business lobby was interested in greater access to China's market, and was therefore wary of Seoul pressuring Beijing to pressure Pyongyang too much.⁴⁸³

Some of Korea's alliance behavior, which does not conform to the predictions of realism, become more clear when elite preferences are weighed. For example, while Japan contributed to Korea's military security by hosting US troops, some of Korea's acquisitions suggest that its elites viewed Tokyo as a threat. Specifically, the KDX class destroyers had similar capabilities as Japan's Kongo class destroyers, and the ROK air forces' acquisitions matched the capabilities of Japan's fighter aircraft. However, realist arguments that Japan was a threat to Korea are unconvincing. While Korea and Japan were in mutual dispute over the Dokdo/Takeshima Islands, small islets off the eastern coast of the Peninsula, this dispute did not imply a military threat to Korea. Second, if indeed the ROK had confronted twin threats in China and Japan, one would have expected it to bind tighter to the US. Instead, one observes that the ROK was trying to distance itself from the US. Kim Young Sam's *segwewha*, or globalization policy, was public testament to Seoul's desire to move out from under the US' shadow, and was the broader policy canon of the time that included Koreanization of Korean Defense.

Korea's behavior is more consistent with arguments of domestic grand strategy theory. When one recognizes that elites were perceiving external threats and opportunities through lenses that stressed economic strength, Japan would be considered an economic competitor.⁴⁸⁴ By seeing Japan through "development" filters, Korean elites augmented disputes with Japan into threats which were greater than what one would expect under realist predictions.

KOREA'S RESPONSE TO CHINA – 1998 TO 2008

Overview

⁴⁸³ Far Eastern Economic Review, 1994.

⁴⁸⁴ See Appendix, Figure A.1.

Korea's policy responses towards China during the 1998-2008 period in both security and economic policy realms were shaped by its short-term interests in attenuating the DPRK threat and recovering from the 1997-1998 Asian financial crisis. In addition to Seoul's political engagement of Beijing over management of the second DPRK nuclear crisis, expanding trade and commercial cooperation meant that economic ties remained the mainstay of Korea's engagement with China. Unlike in the previous period, though, there were indications that ROK elites sensed an increased, long-term threat from China to an eventually re-unified Korea.

This section's organization follows that of the previous. First is a survey of the two dimensions of Korea's response to China: political and security policies, and economic policies. After considering the four broad groups of variables that affect the response—the DPRK threat, China and US policies, and domestic changes—the subsequent section assesses Korea's response against the backdrop of structural realism and domestic grand strategy theory.

1. Korea's Political and Security Response to China: 1998-2008

Korea's political and security policy stances towards China during this period exhibited a palpable shift from previously in that it began to consider China as a partner capable of helping it meet its immediate security objectives on the Peninsula. Convergence in interests was most pronounced by Chinese support for Korea's Sunshine Policy—a strategy of rapprochement vis-à-vis the North inaugurated by President Kim Dae Jung. At the same time, difficulties with its security ally, the US, provided a catalyst for Seoul to deepen its political and security ties with Beijing.

The ROK enhanced its political engagement of the PRC through a series of cooperation agreements and bilateral summits. President Kim Dae Jung visited Beijing shortly after his election in 1998, and Kim and Chinese President Jiang Zemin consolidated bilateral ties under the framework of

“Cooperative Partnership for the Twenty First Century.”⁴⁸⁵ Seoul’s interest in deepening its engagement with Beijing culminated in the declaration of ties as a “Full-Scale Cooperative Partnership” in 2000, representing an upgrading of ties from just “Cooperative Partnership” announced in 1998, and broadening the scope of the partnership to include political in addition to economic issues.⁴⁸⁶ Chinese President Hu Jintao’s visit to Seoul in 2006 elevated bilateral relations to a new symbolic level with the issuance of a Joint Communiqué, where the two parties agreed to establish an “all-around” partnership, maintain high-level visits, and agreed to the establishment of one additional consulate in each other’s country.⁴⁸⁷

The positive tone of bilateral ties extended into the Lee Myung Bak administration. Shortly after his inauguration, President Lee made a state visit to Beijing in May, 2008, and together with Hu Jintao, agreed to upgrade South Korea-China relations from a “comprehensive cooperative partnership” to a “strategic cooperative partnership.”⁴⁸⁸ Tensions as a result of a territorial dispute with China in 2007 over Ieo (or Suyan) Rock were generally mitigated by both governments so as not to affect the overall relationship.⁴⁸⁹

During the 1998-2008 period, actions and statements by Korean elites reinforced views of China as a short-term partner, and indicated that there was increasing consideration of China as a viable long-term partner, even in the future scenario of a re-unified Korea. While Korea’s previous policies towards China were formulated with the mindset of “what would the US think,” the importance that Korea placed in its relationship with China meant that its foreign policies since the 1998 were made with a “what would China think” mindset.

⁴⁸⁵ Snyder, 2001a. Zhu also reaffirmed China’s commitment to a peace regime on the Korean peninsula and support for the Four Party talks involving the two Koreas, China and the US. For reporting on Zhu’s 2000 visit to Seoul, see: Chon, 2000 and Korea Times, 2000.

⁴⁸⁶ Snyder, 2001a. During President Roh Moo-hyun’s visit to Beijing in July 2003, bilateral ties were described as reaching a “comprehensive, cooperative partnership”(Snyder, 2006a).

⁴⁸⁷ Xinhua News Agency, 2005b.

⁴⁸⁸ Cheong Wa De, 2008. President Lee, however, did make a state visit to the US in April 2008.

⁴⁸⁹ Jung, 2008c.

For example, when approached by the US in 1998, the ROK refused to participate in joint development of the ballistic missile defense system.⁴⁹⁰ While the official justification of prohibitive cost and technical feasibility did have merit, the real motivation seems to have been a desire not offend China and risk damage to Sino-ROK bilateral ties.⁴⁹¹

The year 1999 provided additional evidence that Seoul was pondering a strategic tilt towards Beijing. In public remarks at China's National Defense University, the ROK Minister of National Defense noted that US forces (USFK) would remain in Korea until the threat of war ceased on the peninsula, but that at that time, Northeast Asian countries, including China, would have a stake in the future disposition of the USFK.⁴⁹² This statement was remarkable given the long-held assumption that, as its staunch ally, Washington would have had the first right of refusal to remain on the peninsula after a reunified Korea.

The policy statements of President Roh Moo Hyun did not explicitly align Korea's security stance with China, but indicated levels of ambivalence in its alliance relations with the US that were brought about in part by the importance Korea placed on its ties with China. At the 2005 ROK Air Force Academy's graduation ceremony, Roh re-framed Korea's strategic outlook when he stated that Korea

⁴⁹⁰ The US had already been exploring plans to develop a TMD network in Northeast Asia, and had engaged in consultations with Japan to jointly develop such a system. While the DPRK missile launch prompted Japan to sign on, the ROK refused when approached by the US. Indeed, the ROK at first denied that it had even been approached by the US! For news reporting concerning the ROK's decision to abstain from participating in the US-Japan TMD development effort, see: Jun, 1999, *The Korea Times*, 1999. Officially, Korea justified its decision not to participate on the grounds of cost and technical feasibility. Given the financial crisis which had rocked the ROK a year earlier, it was deemed to be too costly of an endeavor. The second reason was that a TMD system would not be useful against the DPRK threat given that it was long-range artillery across the DMZ which most threatened the critical ROK economic center of Seoul. President Kim Dae-jung suggested that TMD would be of no benefit to the defense of the ROK, stating that because Seoul is within 40 kilometers of the DMZ, it is "an unsuitable geographical condition for the TMD concept" (*Korea Times*, 1999a.). Ch'on Yong-r'ae, the ROK Minister of National Defense, added that TMD was "not an effective measure to counter Pyongyang's missile threats in consideration of Seoul's finances and technology" (Jun, 1999).

⁴⁹¹ A number of analysts posit this view. See Chung, 2007, p. 115 and Kim, 2006b, p. 74. Conversations with MND officials on the condition of anonymity confirm that the overwhelming reason was a fear of alienating China. Taewoo Kim notes that concern over Russia's reaction was another reason for the ROK's refraining from participation in TMD (Kim, 2008a).

⁴⁹² *Korea Times*, 1999c. Minister Cho's comments stirred much controversy, and some in the ROK National Assembly called for his resignation. His comments contradicted previous assurances from President Kim Dae-Jung that USFK would remain even after unification. Cho did not resign. See Snyder, 1999.

should aim to be a “balancer of power in Northeast Asia.” Finally, while noting the importance of the US Forces-Korea (USFK) for peace and stability on the Korean peninsula, Roh circumscribed the USFK’s concept of “strategic flexibility” by noting that US forces would not become embroiled in conflicts in Northeast Asia without the ROK’s consent—language that was clearly deferential to China.⁴⁹³

Expanded bilateral military exchanges reflected greater resonance between the diplomatic stances of China and Korea. The first ever bilateral defense ministerial level talks were held in August 1999, when Cho Seong-Tae visited Beijing to hold discussions with his Chinese counterpart, Chi Haotian.⁴⁹⁴ The PRC reciprocated with a visit to Seoul in January, 2000.⁴⁹⁵ Since 2001, the two nations have engaged in mutual visits of navy ships and aircraft as well.⁴⁹⁶

The ROK engaged China while concurrently hedging against regional contingencies, of which China-related ones were just one possibility. This hedging was likely motivated in part by long-term strategic planning for the security needs of a re-unified Korea. Official defense and security strategy statements justified the need to defend against future regional contingencies that could confront a unified Korea, but do not indicate a widespread sense that China was a threat during the 1998-2008 years.⁴⁹⁷ The Ministry of National Defense’s White Papers, though, did consider China and Japan to be potential threats.⁴⁹⁸

⁴⁹³ Korea Times, 2005b. Concerning “strategic flexibility,” Roh’s comments were also interpreted to include the use of US forces in regional contingencies involving Taiwan. Clearly intimating at an independent role for Seoul outside of Washington’s shadow, Roh reiterated Korea’s long-held aspiration to possess a self-reliant national defense capability, but added that Korea should aim to achieve independent (read, independent from the US) operational command by 2015.

⁴⁹⁴ The talks were held Aug 23-29, 1999. Ministry of National Defense, 2000, p. 326. It was reported, however, that Minister Cho also used this occasion to ask the Chinese to lean on the DPRK to prevent additional nuclear or missile testing (Snyder, 1999).

⁴⁹⁵ Ministry of National Defense, 2000, p. 326.

⁴⁹⁶ Ministry of National Defense, 2006, p. 111.

⁴⁹⁷ For example, with the exception of the 1998 Defense White Paper, which appears to discuss growing PRC military budgets and intimate some degree of concern over this matter, other White Papers during this period mention China in very benign or even complimentary language. The 1998 White Paper notes that actual expenditures of the PRC military are likely to be far greater than officially reported figures (Ministry of National Defense, 1998, p. 43). Unlike previous and subsequent White Papers, the 1998 version did not mention the positive impact or contributions of the PRC to the situation on the Korean Peninsula. It is feasible that this was just due to the realization that China was not able to exert much influence over the DPRK in preventing it from test firing a Taepodong missile in 1998. The 1999 version also notes concern over

Other documents invoked future, non-specific—meaning non-DPRK—threats as justification for enhanced military capabilities which would allow Korea to project power absent US assistance. Issued by the Roh Moo Hyun government in 2005, Korea’s comprehensive plan for defense reform—*Defense Reform 2020*—crystallized this new strategic thinking.⁴⁹⁹ It advocated an omnidirectional defense strategy that stressed air and naval over ground forces, and outlined a vision for a self-reliant defense absent US forces.⁵⁰⁰ In support of this comprehensive modernization effort, the ROK defense budget grew 40%, still a non-trivial rate averaging 4.5% per year, between 1998 and 2007.⁵⁰¹

In parallel with this new strategy, the ROK’s naval capabilities grew the most during the 2000s, undergirding the nation’s desire to achieve independent power-projection capabilities. The ROKN commissioned KDX-II destroyers between 2003 and 2006 that afforded it true blue-water capabilities, and commissioned its first KDX-III destroyer equipped with the Aegis system (and on par with Japan’s Atago class destroyer) in 2009.⁵⁰² Calls in 2008 for increasing the required KDX-III

growing PRC military budgets and PLA modernization efforts (Ministry of National Defense, 1999, p. 37). The 2003 equivalent of the Defense White Paper, *Participatory Government Defense Policy*, emphasizes China’s constructive role in facilitating cooperation among related parties concerning DPRK nuclear talks and the Six Party Talks, and notes that in addition to the DPRK threat, there are future “non-specific” threats which serve as justification for self-defense capability (Ministry of National Defense, 2003, p. 24 and 161). Self-defense capability is to be interpreted as defense that is more independent of the US.

⁴⁹⁸ The 2008 White Paper, the first to be drafted under the Lee Myung Bak presidency, describes China’s and Japan’s military modernization efforts in balanced terms, but also notes concern over tensions between China and Taiwan. While concern over the Taiwan Straits issue is not new, the mention of China’s Northeast Asia Project (referring to the Goguryeo controversy), appears to be a first in a Defense White Paper. Ministry of National Defense, 2008, pp. 17-20.

⁴⁹⁹ The Roh Moo Hyun government carried Korea’s defense posture further along the path of a self-sufficient and independent defense force, establishing the Committee on Defense Reform (CDR) in 2005. It was the CDR which drafted the *Defense Reform 2020*. See Han, 2006, or . Built into Defense Reform 2020’s plans to reduce the size of the army was the projection that the DPRK threat would dissipate over time.

⁵⁰⁰ In addition to the utilization of high-technology and jointness characteristic of modern warfare, the Defense Reform 2020 placed greater importance on the ROKAF and ROKN, and pronounced the greatest cuts in army. Particularly revealing of ROK defense strategy are the Defense Reform 2020’s descriptions for naval and air force doctrine. To be reformed was the ROK’s former naval doctrine of coastal defense, to become “omnidirectional” defense to protect sea lanes of communication (SLOC). Changes to air force operational concepts were less dramatic, stipulating the goal of achieving air superiority.

⁵⁰¹ Author’s calculations based on SIPRI data, using constant 2005 dollars.

⁵⁰² Under design and construction since 1992, the 3,900 ton KDX-I, or Okpo class DDG, took so long to develop that it had already been overtaken by the KDX-II program, a 5,000 ton class of DDG that was commissioned between 2003 and 2006 (Jane’s Information Group, 2001a, pp. 412-413). While the KDX-I

destroyer group from three to six reflected increased concerns over DPRK and other regional threats.⁵⁰³ Other naval advancements included the construction of two 13,000 ton helicopter carrier/landing ships, with the first commissioned in 2007 at Jinhae naval base, referred to as the Dokdo class.⁵⁰⁴

After more than ten years of construction, the ROKN's Second Fleet moved to a new base in Pyongtaek, 60 km south of Incheon and on the East China Sea, in 1999.⁵⁰⁵ To increase its ability to project power in the East China Sea and southward, the ROK is also constructing a naval base on Jeju Island, scheduled for completion by 2014.⁵⁰⁶

To strengthen the ROK's airpower, the ROKAF has also continuously upgraded its fighter force. In 1999, it decided to produce an additional 20 F-16 fighters, and in 2002, selected the F-15 as its next generation fighter. First deliveries of the F-15K were made in 2005, and in 2008, a second order of the F-15Ks were made with deliveries scheduled for 2010.⁵⁰⁷ AWACS E-767 procurements, postponed after the Asian financial crisis, are planned to take place by 2011.

was classified by some as a frigate because of its small size, the KDX-II provided the ROKN with true blue-water capabilities. This was supplemented by the KDX-III program, a class of 7,000+ ton DDGs equipped with the Aegis system, and analogous in size and capabilities to Japan's Atago class destroyer and the US' Arleigh Burke class (Jane's Information Group, 2009b).

⁵⁰³ Yonhap, 2008.

⁵⁰⁴ Jane's Information Group, 2009a. The KDX-III, together with a complement of KSS-II submarines, significantly enhanced the ROKN's power projection capabilities. The ROK's desire to push ahead with the Dokdo class despite budget shortages pointed to the government's resolve for power projection. The Dokdo class landing ship has a full length flight deck capable of accommodating 700+ troops, ten helicopters, two air-cushion landing craft (LCAC), and, with an enclosed hangar, the possibility to accommodate naval versions of the Joint Strike Fighter (F-35B) (See Jane's Information Group, 2009c). Some officials in the ROK point to the strategic importance of the Dokdo class in achieving the goals of creating a blue water navy. A navy official is quoted as saying "The construction of a LPX [prior designation for Dokdo class] has more symbolic meaning than establishing an Aegis system in terms of force improvement. The project appears to mark a crucial turning point for the navy to expand its span of operations in the oceans." (Jane's Information Group, 2005c) The Dokdo class is similar to Japan's Hyuga class of helicopter destroyers, and is essentially a light aircraft carrier without the ski-jump. However, it also contains a stern landing dock for two LCACs, akin to the Oosumi class of the Japanese MSDF. The actual displacement of the Dokdo class is reported by its builder, Hanjin, as almost 19,000 tons.

⁵⁰⁵ Jane's Information Group, 2005c.

⁵⁰⁶ Jin, 2007.

⁵⁰⁷ Jane's Information Group, 2009d.

2. Korea's Economic Policy Response to China: 1998-2008

Sino-Korean trade and investment levels grew at meteoric rates between 1998 and 2008. Mutually complementary comparative advantages continued to drive economic engagement. While Korea saw China as a source of cheap labor and a vast export market, China nurtured investment in order to extract technology transfers from ROK firms. The symbiotic relationship worked exceptionally well after China's accession to the WTO in 2001. Bilateral trade skyrocketed, and in 2004, China surpassed the US as Korea's number one trading partner. Seoul's total trade with Beijing (including Hong Kong) grew by 487%, an average of 54% per year, between 1998 and 2007.⁵⁰⁸ Indicating progression up the value-chain, products such as electronics and telecommunications equipment replaced textiles as the dominant Korean exports to China between 1996 and 2006.⁵⁰⁹

Examination of sector specific trade data from this period reveals Korea's comparative advantage over China in technological and manufacturing sectors critical to driving Korea's economic growth. Between 2002 and 2008, exports of semiconductors to the PRC grew over ten times, and those of automobiles expanded by almost five-fold.⁵¹⁰ As a point of comparison, Seoul's exports of semiconductors to China was climbing just as exports to the US were falling. Figure 3.6 below illustrates the increasing integration of China into Korea's high-tech economic growth strategy.

⁵⁰⁸ Author's calculations based on CEIC data.

⁵⁰⁹ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, pp. 73-74.

⁵¹⁰ United Nations Statistics Division, various years.

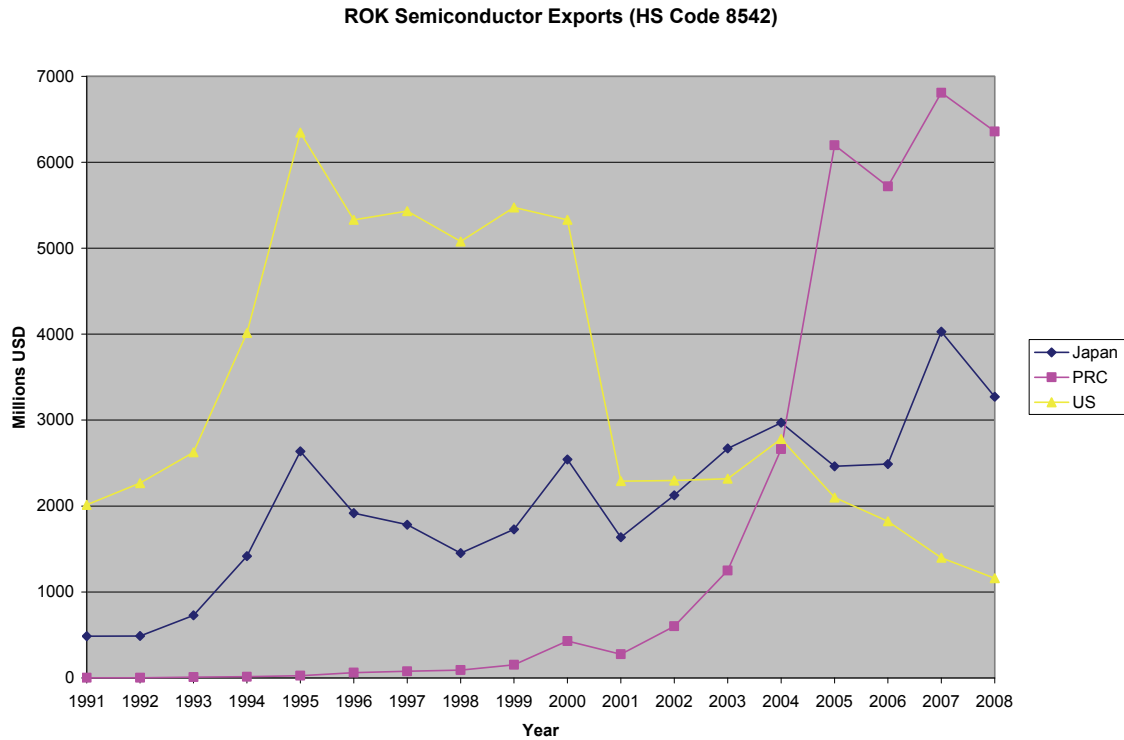


FIGURE 3.6
Source: UN Comtrade Database

There were both “push” and “pull” factors driving this exchange of trade in goods, with Korean firms seeking to avail themselves of their comparative advantage in technology serving as the pushing force, and China’s relative advantage in labor serving as the attractive force. Representative of the typical pattern of trade, ROK manufacturers shipped components to Chinese plants for assembly of computers and consumer electronics, which would then be shipped either back to Korea or elsewhere.⁵¹¹ Often, these assembly plants were owned by Korean firms who made direct capital investments to establish a physical presence in China. Accordingly, Korea’s FDI to China grew at a meteoric rate between 1998 and 2008, with ROK FDI to China as a share of total FDI peaking at 40% in 2005.⁵¹²(See Figure 3.4)

Indeed, investments by Korean companies in China did enrich the economy, as intermediate and capital goods manufactured by Korean firms in the PRC made up the largest portion of exports to

⁵¹¹ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 74.

⁵¹² Author’s calculations based on Korea Eximbank data. See Korea Eximbank, 2010.

the PRC.⁵¹³ Trade with China contributed positively to the ROK's post 1998 economic recovery, accounting for 0.19% of GDP growth in 2000 and 1.15% of growth in 2004.⁵¹⁴

In spite of the flourishing economic relationship, Korea engaged in a bitter trade dispute with China over garlic in 2000—known as the “Garlic War.” During the “Garlic War” of 2000, when Korea's tariffs on alleged Chinese dumping of garlic were met with unusually strong retaliation against Korea's mobile phone industry, Korea eventually backed down.⁵¹⁵ There were also hints of concern among economic and business elites that China began to constitute an economic threat to industry sectors which were critical to Korea's economic success.⁵¹⁶ By 2003, the leadership was cognizant that Korean industries' comparative advantage was eroding as Chinese narrowed the technology gap.⁵¹⁷ Concerned with theft of intellectual property and technology transfer to China, the Ministry of Finance and Economy stipulated in 2004 that high-technology companies were required to seek government approval before investing overseas or being acquired by foreign firms.⁵¹⁸ Analogous concerns were reiterated in 2006 by Minister of Finance and Economy, Han Duck Soo, warning of increasing PRC competition.⁵¹⁹ In response to Korea's changing position of economic competitiveness relative to China, the ROK proposed the Korea-US FTA (KORUS FTA) negotiations in early 2006 as a hedge against China.⁵²⁰

The impetus for trade and investment came from Korean firms' own interests in profit maximization, but the ROK government also created a more supportive political atmosphere through its diplomatic and economic policy engagement with China. The ROK government promoted Korean economic engagement in China through the instrument of Official Development Assistance (ODA), in the form of both grants and loans. After falling during the Asian financial crisis, Eximbank loans to the

⁵¹³ Choi, 2006, p. 52.

⁵¹⁴ Ibid, p. 50.

⁵¹⁵ For a good summary of the events playing out in the Garlic War, see Snyder, 2000c.

⁵¹⁶ A South Korean analyst of the Hyundai Economic Research Institute expressed frustration with lack of protection of intellectual property in China. See Snyder, 2006c.

⁵¹⁷ For example, in 2003, the Korea Semiconductor Industry Association (KSIA) and Korea Industrial Technology Foundation (KOTEF) warned that by 2010, China would close the gap in terms of quality and service (Snyder, 2003).

⁵¹⁸ Snyder, 2004d.

⁵¹⁹ Snyder, 2006b.

⁵²⁰ Bilateral negotiations were concluded in April 2007, but the US has yet to approve the agreement. Snyder, 2007a.

PRC reached record highs in 2000, and gradually tapered off during the end of the Roh administration.⁵²¹(see Figure 3.5, above)

3. Background: Variables Affecting Korea's Response 1998-2008

The Evolving DPRK Threat and Changing Nature of the US Alliance: Impact on Korea's China policy

The evolving DPRK threat and changing nature of the US-ROK alliance were two broad variables which played a significant role in shaping Seoul's policies towards Beijing between 1998 and 2008. As in the previous period, a major contributor of tension in Korea's relationship with the US arose from differences over how to confront continuing problems surrounding the DPRK's nuclear belligerence.

President Kim Dae Jung's and Roh Moo Hyun's strategic outlook towards the DPRK and future of the Korean Peninsula often clashed with the desires of successive US administrations. In contrast, the Korean Presidents' views found more overlap with Chinese views, providing impetus for the ROK to enhance its diplomatic alignment with China. The Korean view was encapsulated in Kim Dae Jung's "Sunshine Policy" towards the DPRK, which viewed confrontational policies to contain the North as counterproductive, and favored diplomatic engagement and dialogue.⁵²² The Sunshine Policy's crowning achievement was Kim's realization of the historic 2000 ROK-DPRK inter-Korean summit.

The gap between the ROK's benign perceptions of the DPRK as "hapless brothers" and US views of the North as an embodiment of evil grew to a chasm after the second Korean nuclear crisis of 2002, when the DPRK allegedly admitted to secretly enriching uranium, violating the terms of the 1994

⁵²¹ However, grant disbursements, though spiking in 1999 and 2000, fluctuated throughout the Roh years and remained at a non-trivial level of almost \$2 million in 2007. Since then, grant ODA has been terminated as there are concerns that the PRC economy is already too developed to warrant such assistance.

⁵²² While the Sunshine Policy had its antecedents in *nordpolitik*, and parts of its mission was attempted by Kim Young Sam, it was different in both tone and scope from past diplomatic forays.

Agreed Framework.⁵²³ After the October 2002 nuclear crisis erupted, Seoul aligned more towards Beijing in part because of differences in views with Washington over the degree of punishment to mete out to Pyongyang, and in part because of the already acrimonious atmosphere in Korea-US ties brought about by President Roh Moo Hyun, who had campaigned on a platform which opposed US dominance in Korean security affairs.⁵²⁴

Other aspects of Korea's security relationship with the US added momentum to voices within the Korean elite calling for less dependence on the US, and more strategic alignment towards China. Brewing discontent among elites and the public alike over the US-ROK Status of Forces Agreement (SOFA) and the perception that it was unfair to Koreans spilled-over after an accident in which two Korean schoolgirls were killed during a US military exercise in June 2002.⁵²⁵ Though this incident

⁵²³ The second North Korean nuclear crisis erupted when US negotiators led by Jim Kelly confronted the DPRK representatives with evidence that they had violated the terms of the Agreed Framework by secretly enriching uranium. For sure, ROK elites during the 1999-2008 period were aware that the DPRK still posed a lethal threat. However, the danger was never perceived to be imminent. Accordingly, Kim's and Roh's policies were designed to engage Pyongyang and coax it to a more peaceful orientation. One dimension of this outlook was that the ROK saw economic development in the DPRK as a way to pacify Pyongyang's militaristic tendencies, with the view that something akin to the Chinese model of economic opening and reform would stabilize the North and pave the way to eventual, peaceful reunification. The Kim government authorized tourism and investment in the DPRK's Kaesong industrial zone—where ROK conglomerates operated manufacturing centers employing DPRK labor.

⁵²⁴ Both Korea and China valued a stable, cohesive DPRK over a collapsed one. Both saw negotiations and peaceful means as the method of choice—not surgical military strikes. Both tended to view incentives for the DPRK, and incremental negotiations, as preferable to conditioning talks on denuclearization. This confluence of perceptions and interests elevated the importance of China in helping to address the ROK's core interests. During the Six Party Talks (6PT) process on the denuclearization of North Korea, the ROK under Roh frequently disagreed with the US on the degree of pressure to exert against Pyongyang. For example, Roh was reluctant to implement forceful sanctions against the DPRK, and feared that the ROK's participation in the Proliferation Security Initiative (PSI), which would involve interception of the North's ships suspected of WMD material proliferation, would lead to military conflict (Sheen, 2008, p. 106). In the wake of the DPRK's July and October 2006 missile and nuclear tests, ROK Prime Minister Hahn Myoung-sook said that US pressure and financial sanctions may have precipitated the test (Chosun Ilbo, 2006a, cited in Sheen, 2008, p. 105). In President Roh's final interview with CNN as president, he highlighted his differences with the US regarding the US of sanctions against the DPRK (Sheen, 2008, p. 110. Actual text of interview is at CNN, 2007).

⁵²⁵ ROK elite attitudes that the SOFA was unfair to Korea was part-and-parcel of a general perception that Korea was not treated as an equal in the alliance. There was a sense that the US took the upper hand in negotiations to resolve the 1993-94 DPRK nuclear crisis without adequately accounting for ROK interests, and that the US' other staunch Asian ally, Japan, receives better and more equitable treatment in the alliance. See Levin, 2004, p. 36. After the US resisted demands that the two US sergeants be turned over to Korean authorities, and were later acquitted by the US military court, mass protests erupted in downtown Seoul, and

did not mean that president Roh and the ROK were no longer supportive of the alliance with the US, it did provide additional fuel to debates over the future of the USFK in the ROK, and added to Seoul's increasingly awkward embrace of Washington during Roh's presidency.

China's Continued Embrace of Korea Combined with Heavy-Handed Tactics – 1998-2008

China's continued friendship towards the ROK increased the confidence of the Kim Dae Jung and Roh Moo Hyun administrations in viewing it as a potential partner with shared, near-term strategic interests. The confluence of approach to mitigating the DPRK crisis and near future of the Korean Peninsula served as enhancers of closer Sino-ROK ties, while China's growing abrasiveness instilled doubt among ROK elites over long-term Chinese intentions, particularly in the scenario of a re-unified Korea.

China was an early supporter of Kim's Sunshine Policy, and had a strong interest in preventing the collapse of the DPRK.⁵²⁶ And by hosting the Six Party Talks to address the second DPRK nuclear crisis, China also curried favor with ROK elites as a voice of moderation and diplomacy that was consistent with the tone of the Sunshine Policy.

As Korea under the Kim Dae Jung and Roh Moo Hyun regimes began to tilt towards China, some abrasive diplomatic policies on behalf of Beijing raised alarm among Seoul's elites. The following policies illustrated the PRC's hegemonic tendencies: its increasing efforts to carve a sphere of influence in the DPRK, poor treatment of ROK National Assembly members in Beijing⁵²⁷ and North

smaller protests elsewhere throughout the ROK, in late 2002 (For more information, see: Kirk, 2002b, Kirk, 2002a).

⁵²⁶ Snyder, 2009, p. 90.

⁵²⁷ A key incident in 2005 further dampened enthusiasm in ROK elite circles over China as a reliable partner. Several ROK legislators who had traveled to northeastern China to investigate the whereabouts of a missing ROK pastor had attempted to hold a post-trip press conference at the Great Wall Sheraton Hotel in Beijing, but were harassed by plainclothes PRC security forces and forcibly removed. This undiplomatic treatment of ROK officials elicited strong protests from the ROK government (The incident occurred Jan 12, 2005. See Yonhap, 2005).

Korean refugees,⁵²⁸ heavy-handedness over Korea's ability to cultivate unofficial ties with Taiwan,⁵²⁹ its apparent claims over Goguryeo—a historical Korean kingdom,⁵³⁰ and territorial claims over Ieo Island (in Korean) or Suyan Rock (in Chinese).

China's expanded influence over the DPRK was of most concern to the ROK's long-term strategic interests, heightening ROK elites' awareness of China's latent hegemonic intentions.⁵³¹ During the 2000s, Beijing deepened its reach into the North by gaining concessions in mining and natural

⁵²⁸ China's ability to exert influence in the DPRK did not correlate with humane treatment of North Korean refugees that escaped to China, nor to ROK National Assembly members who were investigating the plight of these refugees. Beijing's treatment of North Korean refugees in China as illegal "economic migrants" rather than refugees under UN conventions provided a constant source of friction with Seoul. In June 2002, Koreans watched with shock at footage of Chinese security officials forcibly entering the ROK consulate in Beijing and removing a North Korean asylum seeker who had already entered the compound (Kim, 2002).

⁵²⁹ During the 1998-2008 era, ROK elites and the public alike also became concerned with China's unfair treatment of Korea over symbolic issues of sovereignty. Since normalization of ties in 1992, Seoul had been particularly responsive to Beijing's diplomatic sensitivities over Taiwan and Tibet—more so than other states in the region that maintained ties with the PRC. Since the ROK broke diplomatic ties with Taiwan in 1992 in order to normalize its relations with the PRC, direct air links between the ROK and Taiwan had been severed as well. After the initial furor over the abrupt termination of diplomatic ties settled, talks between Seoul and Taipei to resume air links were reportedly stymied by PRC pressure (Snyder, 2000d). News sources also note that Seoul was reluctant to send high-level representatives to negotiate resumption of air links for fear of upsetting Beijing (See Wu, 2000). Chinese pressure to block the visit of the Dalai Lama to Korea, who had been invited by a Buddhist group, was also intense. Despite increased lobbying by ROK religious groups to grant a visa for the Dalai Lama, and the fact that President Kim Dae Jung, who had just been awarded the Nobel peace prize, was now a fellow prize recipient along with the Tibetan spiritual leader, the ROK capitulated to PRC pressure and thwarted his visit (ROK news agencies reported strong criticism of Chinese Ambassador to Korea, Wu Dawei's, inflammatory remarks pressuring the ROK over the possible resumption of air links with Taiwan and the Dalai Lama's visit. Wu criticized the Nobel Prize committee for awarding the prize to the Dalai Lama, despite the fact that the Nobel Prize had been awarded to Kim Dae Jung just weeks earlier (See *The Korea Herald*, 2000a)). Chinese measures to prevent ROK officials from attending Taiwan President Chen Shui-bian's inauguration in May, 2004, were stricter than conditions the PRC applied to other nations, and also elicited a backlash from some politicians (Snyder, 2004c). Chinese pressure elicited negative reactions from Korean lawmakers. See Yonhap, 2004).

⁵³⁰ China's apparent attempt to stake an irredentist claim back in time became known as the Goguryeo controversy, and emerged with the Chinese Academy of Social Science's "Northeast Asia Project" in 2003. The Northeast Asia Project had political undertones of Sinicizing Korean history by claiming the ancient Korean kingdom of the Goguryeo (or Goguryeo) Dynasty (37 BC to 668 AD) as part of the Chinese historical narrative. The Goguryeo controversy struck more at the symbolic and psychological core of Korea's position relative to China rather than any practical reality. However, it did add to the growing body of evidence casting doubt on China's true intentions over the ROK. For a good summary of the Goguryeo dispute, see: Snyder, 2004a, Snyder, 2004b, Snyder, 2004d. For an official ROK description, see Ministry of Foreign Affairs and Trade, 2009.

⁵³¹ Snyder, 2009, p. 98. See also Chosun Ilbo, 2007a.

resource extraction. In contrast, the ROK's sphere of influence was circumscribed to operations in the Kaesong industrial zone and Mount Kumgang.

Confrontation in the economic sphere clouded ROK perceptions of China as beneficial economic partner as well. Known as the "garlic war," a trade dispute involving alleged Chinese dumping of cheap garlic into Korea escalated with punitive tariffs levied by both sides, and elicited an extremely harsh and, arguably, uncalled-for response from Beijing.⁵³² Additional concerns related to the hollowing out of Korea's economy due to increased competitiveness of Chinese industry. By 2006, ROK economic planners and elites began to express concern over excessive dependence on China as a vehicle to assist Korea's growth.⁵³³ Changes in China's labor laws in 2008, which restricted overseas investment in labor-intensive sectors, forced out numerous small and medium sized Korean enterprises who had set up shop to take advantage of China's low labor costs.⁵³⁴

Domestic Influences on Korea's China Policy – 1998-2008

Korea's policy stances towards China took place against the backdrop of tectonic domestic changes. More than in the previous period, Korea's domestic landscape underwent dramatic change during the progressive presidencies of Kim Dae Jung and Roh Moo Hyun. Having been arrested and sentenced to death during the Park Chung Hee era, Kim Dae Jung, who had spent a lifetime protesting the corrupt and authoritarian governments, assumed the presidency in 1998 with pledges to transform the domestic system.

As part of his campaign pledge, Kim sought to reform the power of businesses, and the nature of ties between the *chaebol* and political elite, a symbiotic relationship which was hallmark of the Asian developmental state. He attempted to reform the structure of the bureaucracy by streamlining government operations and reforming the financial industry and regulatory agencies, but failed because of opposition politicians and the fact that he expended more political capital on rescuing

⁵³² The dispute was eventually resolved, but the harsh retaliation by China through banning imports of cell phones and polyethylene from the ROK was greater than what typically occurs in a trade war. See Snyder, 2009, p. 66.

⁵³³ Ibid, pp. 73-78

⁵³⁴ Ibid, pp. 73-78.

Korea's economy after the 1997 financial crisis.⁵³⁵ In the end, he failed to change the patterns of relations between political elites and *chaebol*. His reforms altered the operational scope of the *chaebol*, but because they remained the only enterprises that were internationally competitive, they continued to play a major role in the ROK economy, especially in light of Korea's need to recover from the Asian financial crisis.⁵³⁶ And Kim's stated goals of cleaning up government and corruption were unsuccessful.⁵³⁷ One dimension of the Asian developmental state that Kim did alter was to liberalize the economy to allow for more foreign direct investment to enter the ROK.

As a progressive, the election of Kim Dae Jung brought about ideational changes relating to Korea's grand strategy, affecting Seoul's relations with Beijing to the extent that Kim had a more conciliatory outlook towards the DPRK. Yet because Korea's economic woes were top priority, he continued to rely on Korea's traditional outlook of emphasizing technological and economic growth as a means to national strength. This translated into an economic strategy which relied on China's integration into the Korean economy.

⁵³⁵ Prior to his inauguration, Kim had created a Government Reform Committee, which made calls to reform and streamline inefficient government ministries as well (Kim, 2007, p. 317). In addition to streamlining government operations, Kim sought to deregulate the financial industry to improve the ROK's economic competitiveness (Kim, 2000b). President Kim was very active in promoting reforms during the beginning of his presidency, but his administration found it difficult to push reform measures through the National Assembly (Kihl, 2005b). For general information on the types of government reforms Kim Dae Jung attempted to implement, see: Ha, 2004, United Nations, 2003, and Kwon, 2002). In the end, Kim was unable to enact many of his government reform measures, and wound up simply capturing political institutions such as the National Assembly and judiciary through building his own patronage network—behaving as previous presidents did and violating his own pledges for changing the system (Errington, 2004, p. 23).

Availing himself of the opportunity afforded by the economic crisis, Kim introduced liberalizing market reforms which strengthened the state's ability to regulate the power of the *chaebols* due to the support of two opposing groups: Kim's core constituency, the labor unions and progressives, and the International Monetary Fund (IMF). Kim Dae Jung delayed planned regulation of the *chaebol* because he saw liberalization as a way to break the link between government and industry (the *chaebol* had relied too much on government facilitated debt prior to the 1997 financial crisis)

⁵³⁶ Ironically for a progressive, Kim's reforms were more liberalizing and pro-business than those of any previous president in the conservative stream. This perspective comes from Hahm, 2005, p. 64. Lee Yeonho also notes that Kim Dae Jung achieved limited success in restraining the economic concentration of the *chaebol*. (Lee, 2005, p. 292).

⁵³⁷ Kim's stated goals of cleaning up government and corruption were unsuccessful. During the last months of his presidency, it was revealed that he had orchestrated a "cash for summit" deal in which the Hyundai Group had contributed US \$500 million to the DPRK shortly before the June 2000 inter-Korean summit. A plethora of other scandals rocked the nation during the second half of the Kim presidency, casting doubt on the sincerity of Kim's reform and anti-corruption efforts, and underscoring the continued influence of the *chaebol* in government politics (Kim, 2007, p. 349).

The Korean government's foreign economic strategy had several features, but one important facet was to leverage and integrate China more closely with Korean technological and manufacturing growth. The plan to develop the ROK into a business hub for northeast Asia ("Northeast Asia Business Hub"), announced by Kim Dae Jung in 2002, envisioned leveraging China to not only grow its own economy, but to facilitate economic cooperation with neighboring countries such as Japan.⁵³⁸ This was followed on with plans to make the ROK a regional hub for finance.⁵³⁹ Given the prominence of mobile communication products, memory and other semiconductor components in Korea's information technology (IT) export portfolio,⁵⁴⁰ the ROK government also opened centers in China to facilitate Korean exports.⁵⁴¹ All of these strategies relied on China as fulcrum for Korea's economic growth.⁵⁴²

Roh Moo-Hyun's election to the Korean presidency in late 2002 represented another victory for the progressives. Like his predecessor Kim Dae Jung, Roh sought to reform structural elements of the Asian developmental state in that he campaigned to reform Korea's governing bureaucracy.⁵⁴³ Unfortunately, Roh's stated goals did not match the reality of his governance challenges, and his administration succumbed to corruption scandals as well.⁵⁴⁴ While Roh did make fundamental reforms to the domestic political system, shedding away legacies of authoritarian rule by granting independence to the prosecutor's office and prohibiting the intelligence agency from intervening in

⁵³⁸ For a description of the Northeast Asia Business Hub Strategy, see Lee, 2002, Also, see Barfield, 2003, p. 13 and 20. See also Choi, 2006, p. 56.

⁵³⁹ This strategy was announced in 1997. See Ministry of Finance and Economy, 2007.

⁵⁴⁰ Lee, 2006b.

⁵⁴¹ These centers were called iParks, and were opened in China, in Beijing, June 2000, and Shanghai, December 2001. The Korean IT Industry Promotion Agency (KIPA), founded in 1998 under the Ministry of Information and Communication, established these iParks. The first iPark was established in 1998, in Silicon Valley, US. While the highly established US has two iParks (the other in Boston), China is the only other country to boast two iParks, underscoring the importance of the PRC to the Korean economy. KIPA is now called the Korea Software Industry Promotion Agency. See Korea Software Industry Promotion Agency (KIPA), 2009.

⁵⁴² The automobile industry was a sector in which Korea's competitiveness, as measured by the Trade Specialization Index (TSI), was increasing. Woo, 2003.

⁵⁴³ Roh also criticized Kim Dae Jung's imperial presidency.

⁵⁴⁴ Early into his presidency (in 2003), some of his closest aides were arrested for accepting illegal campaign contributions and bribes. Kim, 2007, p. 366. Roh's elder brother, Roh Gun Pyung, was also prosecuted in 2003 for soliciting a position and accepting 30 million won from the president of Daewoo (Kim, 2008b). Political difficulties with the opposition National Assembly meant that Roh was temporarily impeached, even though in the end, it proved to be an unpopular move.

politics,⁵⁴⁵ his coarse political style and own liabilities inhibited his abilities to reform the inequities in the Korean economy that he had originally sought to rectify in his campaign. And under Roh, Korea continued to embark on creating comparative advantage by implementing a new science and technology agenda, and research and development strategy.⁵⁴⁶

Lack of political capital and authority meant that Roh altered neither elite norms of defining security in economic terms, nor the collusive ties between political elite and *chaebol*. As part of Roh Moo Hyun's efforts to address inequities within Korean society, he had wanted to break privileged ties between the *chaebol* and government. Due to domestic challenges and institutional opposition from the National Assembly, Roh was forced to moderate his more radical stances and, during the second half of his presidency, revealed more conservative economic tendencies.⁵⁴⁷ And while the *chaebol* underwent reforms and became subject to transparency requirements, they still accounted for a significant portion of the ROK economy.⁵⁴⁸

Elected in 2007, President Lee Myung Bak hailed from the conservative stream of politicians, and has showed no signs of altering the patterns of relations among business elites and politicians.

ASSESSING KOREA'S RESPONSE TO CHINA AGAINST STRUCTURAL REALISM, 1998-2008

For the years 1998-2008, do explanations grounded in structural realism offer a convincing explanation of Korea's policy stances towards China? This section analyzes material in the above paragraphs against the predictions of structural realism, and concludes that overall, structural realism

⁵⁴⁵ Ahn, 2008.

⁵⁴⁶ As part of these efforts, The Ministry of Science and Technology (MOST) (through the Korea Institute of Science and Technology Evaluation and Planning) commissioned RAND Corporation to conduct a study on Korea's science and technology competitiveness relative to a rising China. See Seong and Popper, 2005.

⁵⁴⁷ For example, Roh retained Finance and Economy Minister Lee Hun Jai in his post, despite his conservative economic policy views (Shin, 2005). Roh also used his presidential position to aggressively promote the US-Korea FTA. Roh's more radical *chaebol* reform measures faced fierce opposition from the Grand National Party within the National Assembly, and from the business community (Lee, 2005, p. 296).

⁵⁴⁸ For example, Samsung accounted for 25% of the Seoul stock market (Lee and Sparks, 2005).

explains some of Korea's political and military responses to China, and some of its economic responses to China.

During this period, is there evidence to suggest that China was a threat to Korea? Were there points of conflict between the two powers, and were there threats to the ROK that China was able to help mitigate? On balance, China posed an immediate opportunity as opposed to a threat, serving as a dampening force against a volatile DPRK by hosting the Six Party Talks. However, increasing friction caused by China's abrasive behavior and *de facto* economic colonization of the DPRK served as indicators of China's long-term threat to a reunified Korea.

If Korea's policy response to China was consistent with the predictions of structural realism, then one would expect to see the ROK undertake a utilitarian approach of maximizing its security and flexibility through maintaining good relations with both China and the US. One might also expect military procurements and alliance behavior commensurate with preparations for a long-term scenario of a re-unified Korea needing to protect itself. The expected policy would be neither balancing against China through efforts to counter Chinese capabilities/binding closer to the US and other regional powers, nor bandwagoning through abandonment of the ROK-US alliance in favor of China. In light of Chinese behavior casting doubt as to the friendliness of the PRC towards a re-unified Korea, one might also expect to see military preparations to counter regional powers. A realist would also expect to see some degree of economic engagement so long as Korea were the benefit of such exchanges, and certainly little in terms of restrictions on economic activity.

Korea's political and military policy stances towards China appear to conform with realist predictions. China did not engage in behavior which threatened the ROK, and in fact played an important role in supporting ROK interests on the Korean Peninsula over those of its ally—the DPRK. China hosted the Six Party Talks, and suspended oil shipments in 2003 to the DPRK as a means of bringing Pyongyang back to the negotiating table. As a realist would assume, Korea aimed to maximize its security vis-à-vis its most lethal threat—the DPRK—through enrolling the PRC as a partner. Concurrently, Seoul maintained its military and alliance deterrent against Pyongyang through reaffirming its alliance with Washington.

Structural realism also explains some of Korea's military procurements and deployments, which at first blush appear to diverge from realist predictions of ROK security policy stances towards China were it not seen as a threat. However, hedging by the ROK against unspecified regional threats converges with realist expectations of state behavior when one considers its long-term strategy of defense preparation for a unified Korea. China's economic colonization of the DPRK, and nationalistic claims to Korean history, seemed to increase prospects that the PRC would be less solicitous of ROK interests under a re-unified, greater Korea.

To what extent were ROK internal and external balancing behavior vis-à-vis China explained by structural realism? Given that Korea confronted security threats from and was engaged in territorial disputes with several states—the DPRK, China and Japan—there is no direct way measuring the degree to which its security policies were targeted exclusively against China. Yet some general claims can be made as to whether Korea's military modernization (internal balancing) and alliance behavior (external balancing) indicated balancing and preparation for the potential of China to become a long-term threat.

Even more so than in the previous period, the bulk of the ROK's military deployments and acquisitions between 1998-2008 indicated preparations which would be more useful against China-related contingencies than against those associated with a DPRK invasion. Deployments of the KDX-III Aegis destroyers, and calls for augmenting the KDX-III fleet from three to six, confirm a power projection strategy as outlined in *Defense Reform 2020*—a document grounded in the assumption that the DPRK threat would wane over time. Other deployments, such as the Dokdo Class of helicopter carriers/amphibious assault vessels, and construction of a new naval base on Jeju Island, are consistent with a military strategy of countering regional threats.

Seoul's alliance behavior represented a hedge against future uncertainties, and also comport with realist predictions given China's short-term utility and potential long term threat. While China was a valuable host of the Six Party Talks and had converging interests with the ROK in attenuating the DPRK threat while preventing its disorderly collapse, its irredentist claims to Korean history, abrasive diplomacy vis-à-vis ROK legislators, and economic colonization of the DPRK suggested divergent long-term strategic interests on the Peninsula. Despite strains in the US-ROK alliance which were

highlighted in the course of the second DPRK nuclear crisis, Seoul did not abandon its alliance with Washington. Military exercises continued, and even during the height of personal differences between Presidents Roh Moo Hyun and George W. Bush, the ROK maintained its regular military exercises with the US, and committed 3,000 troops to help with Iraqi reconstruction.⁵⁴⁹

Are Korea's economic policies towards China explained by structural realism? Under structural realist precepts, the ROK would certainly not have encouraged trade and investment in China had there been a widespread sense that China was a threat. Given that this was *not* the case, at least in the near term, efforts in Seoul to encourage investment in and commercial activity with Beijing do not run counter to realist predictions. Trade with and investment in China yielded significant economic benefits for the ROK, and therefore comport with realist logic of how states pursue goals other than survival under conditions of low or moderate threat. However, the degree to which Korea allowed, and encouraged, economic relations with China during this time seems disproportionate to what realism would predict in light of Chinese behavior indicating a long-term threat to the ROK.

ASSESSING KOREA'S RESPONSE TO CHINA AGAINST DOMESTIC GRAND STRATEGY EXPLANATIONS, 1998-2008

Can Korea's political, security and economic policy stances towards China during the 1998-2008 time frame be explained by an ideational-liberal hypothesis? In other words, are changes/stasis in Korea's domestic governance structure—consisting of its leadership and bureaucracy, and relationship between the leadership and business—and ideational norms the cause of changes/stasis in Korea's response to China? Domestic grand strategy theory hypothesizes that patterns of relations between state elites and business interests interact with norms emphasizing security in techno-economic terms will lead nations to formulate policies based on preserving their technological and economic strength.

⁵⁴⁹ Easley, 2006, p. 130.

Based on variation in state type, the more a state approaches the Asian developmental state ideal type, the more it is expected to subsume military/territorial security interests in favor of economic interests *if* the Asian state is economically strong relative to China. And the greater its developmental state characteristics, the greater its tendency to enmesh itself economically with China. Two questions then must be asked: What type of state was Korea during this period? What was Korea's economic strength relative to China?

During the 1998-2008 period, the ROK retained much of its Asian developmental state qualities. Kim Dae Jung and Roh Moo Hyun both sought to reform Korea's domestic governing structure through streamlining government and the economic bureaucracy. Additionally, both had promised to stamp out the networks of patronage between political elites and business tycoons, embodied in the *chaebol*. While both leaders realized the importance of economic growth to Korea's well being, coming from the progressive stream of politicians, they both aimed to increase equity by attacking previous norms of emphasizing economic growth beyond all else. However, both Kim Dae Jung and Roh Moo Hyun were unsuccessful with accomplishing much change in terms of altering the collusive ties between political elites and *chaebol*, and shifting elite norms of defining security in economic terms. The *chaebol* continued to maintain significant power and prestige in domestic politics, with criticism of *chaebol* considered to be taboo.⁵⁵⁰

In terms of relative economic strength, Korea possessed a comfortable lead over China if one considers GDP per capita on a purchasing power parity (PPP) basis. China began to narrow the gap between 1998 and 2008, but by 2008, Korea's GDP per capita (PPP) was still over four times that of the PRC. Other surrogate indicators confirm Korea's lead: Korea spent over twice the amount of its GDP on R&D than China did, and employed over four times more researchers in R&D per million. Korea's economy was also trade complementary with that of China. However, despite Korea's huge lead, there were concerns expressed over China's increasing economic threat to ROK businesses operating in China.⁵⁵¹

⁵⁵⁰ See, for example, Glionna, 2010.

⁵⁵¹ See Appendix, Figures A.1, A.2 and A.3.

Given these circumstances, how much of Korea's response to China does domestic grand strategy theory explain? Given that Korea was an Asian developmental state, and was economically and technologically stronger than China, it would have been expected to assume a greater degree of military risk vis-à-vis China, and to have subsumed security interests in favor of economic ones. Korea would have also been expected to align towards China in both political/security and economic domains—integrating its production chains and commercial activity with those of China.

Korea's political and economic policy responses to China during the same period do seem to fit the predictions of domestic grand strategy theory. It enhanced military cooperation with Beijing, enlisted China to assist in its goals of improving the security situation on the Peninsula, and elevated its diplomatic and political cooperation with China in the form of strategic agreements and partnerships. At the same time, it aggressively promoted trade with and investment in China.

Korea's political and security policies towards China during this period indicated that it prioritized economic interests on levels equal to military/political ones. In spite of disputes and frictions in diplomatic ties—evidenced by the PRC's deepening entrenchment in the DPRK economic and natural resources sectors, disrespectful treatment of ROK National Assembly members and breach of the ROK consulate's diplomatic rights—the ROK settled these disputes quietly. The ROK was extremely sensitive to upsetting its diplomatic relations with China by refusing to participate in US-led TMD, and by its reluctance to grant strategic flexibility to the USFK for military contingencies outside the Peninsula. In parallel with its political and security engagement of Beijing, Korea also enhanced its economic ties with China through trade promotion efforts and ODA.

In broad strokes, Korea's political and economic response to China appears to have correlated with the predictions of domestic grand strategy theory. However, is there any specific evidence linking the independent variables—state structure of corporatist bargaining agreements between politicians and business elites (embodied by the *chaebol*), and norms of economic security—to actual policy alignment towards China? The examples below support such a linkage.

Politically well-positioned *chaebol*, such as Samsung, appeared to play a unique role in shaping trade policy towards China. During the “Garlic War” of 2000, when Korea's tariffs on alleged Chinese

dumping of garlic were met with unusually strong retaliation against Korea's mobile phone industry, Korea eventually backed down, given the importance of Samsung's interest in China's mobile phone market.⁵⁵² The ROK government played an important role in facilitating the expansion of Korean telecommunications firms' businesses in the PRC. A notable example of how the ROK leadership worked with *chaebol* to open markets in China (for the benefit of the *chaebol*) concerns the case of economic diplomacy to promote adoption of wireless telephony standards which would benefit Korean industry, and Samsung.⁵⁵³ Other politically-connected firms had much to gain from good Sino-Korean diplomatic ties, as they were heavily invested in the China market.⁵⁵⁴

Domestic grand strategy offers a strong framework for explaining Korea's economic policy response to China, but does not appear to provide the same degree of power when it comes to explaining political and security policies. If changes in Seoul's domestic political structure (relationship between state elites and *chaebol*) and ideas stressing economic growth are direct causes of its political and security policies towards Beijing, then domestic grand strategy succeeds in explaining change in policies over time. However, one can only make inferences as to how the contours of Korea's domestic political landscape and ideation affected its political and security response to China during the 1998 – 2008 period. For example, while there was not direct evidence that Korea's economic interests in China were the cause of its decision not to participate in the US-Japan TMD effort, it was Korea's desire to maintain a positive tone in its ties with China that accounted for its decision not to participate.

⁵⁵² Snyder, 2009, p. 66.

⁵⁵³ Samsung stood to gain most from Chinese adoption of the CDMA standard. As the cellular phone standard in the ROK was code-division multiple access (CDMA), the ROK telecoms industry and government were particularly keen on encouraging Chinese adoption of the CDMA protocol as well. In April 2000, ROK Minister for Information and Communication, Yang Seung-taik met with Chinese Premier Zhu Rongji to discuss bilateral CDMA cooperation (Snyder, 2001c). This was followed by a call on Zhu by ROK Foreign Minister Lee Jounge-binn's visit less than two week later, where the CDMA issue was also discussed (The Korea Herald, 2000b).

⁵⁵⁴ The Pohang Iron and Steel Company (POSCO), established in 1968 as part of Park Chung-hee's industrialization drive, was a major investor in new steel plants in China (Snyder, 2003). While it was privatized in 2000, it still was an influential player in ROK economic policy. In 2006, it commissioned a 600,000 ton integrated stainless steel production process at its Zhangjiagang, China, facility to comprise almost a quarter of POSCO's total global output of stainless steel. Zhangjiagang POSCO Stainless Steel produced stainless steel for the Chinese market since 1997 (See POSCO, 2007). Another state-owned enterprise, Korea Electric Power Corporation (KEPCO), has also been deeply involved in China, signing a memorandum of understanding with Luoyang Shengsheng Power Company to build two thermal power plants (Snyder, 2003).

As with the previous period, domestic grand strategy clarifies some of the ROK's policies which appear puzzling when viewed under the realist framework. The ROK's military procurements and deployments matched the capabilities of its nominal ally, Japan. For example, the KDX-III Aegis destroyers and Dokdo class amphibious assault vessels had similar capabilities as Japan's Atago class destroyers and Oosumi class amphibious assault vessels. Under structural realism, this might indicate that Seoul somehow viewed Tokyo as a threat—even though Japan did not threaten Korea.

Other aspects of the ROK's behavior run counter to realist logic. For example, after China revealed its hegemonic tendencies during the Koguryeo incident, and increased its sphere of influence in North Korea, there were calls by the ROK to formally designate not China, but Japan, as a potential enemy under the auspices of the US-ROK alliance.⁵⁵⁵ While one can argue that this may not have been a mainstream view indicative of a long-term strategy, it is nonetheless puzzling and unexplained by realism. Structural realism would have instead predicted that in light of an the heightened level of threat from the DPRK and China, that the ROK would cooperate more with its nominal ally Japan. In other words, shared security interests should override nationalistic tendencies.

As in the previous period, Korea's policy stances towards Japan are better explained by domestic grand strategy, which considers that elites viewed external threats through lenses which prioritized economic advantage. Korean elites still considered Japan to be an economic competitor, and made it a national goal to achieve exceed Japanese economic and technological prowess. This mindset meant that, at least in economic terms, Seoul saw Beijing as an economic ally, and Tokyo as a rival.

ANALYSIS AND CONCLUSIONS – WHICH THEORY BEST EXPLAINS KOREA'S RESPONSE TO CHINA OVER TIME?

⁵⁵⁵ In 2005, Korea requested that the US-ROK alliance mention Japan as a potential adversary, in a manner similar to which China was designated a potential adversary under the US-Japan alliance. See Overholt, 2008, p. 162. This incident has been confirmed by conversations with other analysts as well.

Were the changing external contours of Korea's external security environment the primary driver of its response to China? Or did Korea's developmental state features and changes in leadership cause changes in the response to China? Of systemic/external or domestic structural and ideational, which variable played the most determinative role in shaping Korea's response to China? To address these research questions, the following paragraphs assess the effectiveness of structural realism and domestic grand strategy theory in terms of their explanatory power.

Structural Realism

Structural realism appears to explain segments of Korea's political and security stances as they pertain to China. Seoul and Beijing shared the common goal of maintaining peace in North Korea, and Seoul leveraged its improved relations with Beijing in hopes that China would attenuate the DPRK threat. Given that China did not explicitly threaten Korea during most of the 1990s and early 2000s, one cannot point to Seoul's efforts to cultivate strategic and military ties with Beijing as violating the predictions of structural realism. Indeed, China had *helped* with increasing Korea's security. Acting in its own interests, the PRC supported Korea's Sunshine Policy and hosted the Six Party Talks to address the second DPRK nuclear crisis.

Structural realism also appears to explain shifts in Korea's policy responses to China over time. After China began to display hints of irredentist behavior through its attempts to Sinicize the historical kingdom of Goguryeo, and following its abrasive policies that impinged on Seoul's diplomatic space pertaining to North Korean refugees and ROK legislators, Korea became more concerned about the long-term threat China would pose, especially in the scenario of a reunified Korea. The timing of Korea's advanced weapons deployments, especially in naval and air capabilities, also suggests that such internal balancing efforts may be directed at regional threats, including China, to a reunified Korea.

Given that China did not pose an immediate threat to the ROK in either the 1992-1998 or 1998-2008 period, Korea's economic engagement with China is consistent with realist principles. However, the intensity of Seoul's economic engagement seems less well explained by structural realism in the 1998-2008 period, when friction in diplomatic and political ties arose with China.

While China may not have been an explicit threat to Korea even then, the fact that 40% of Korea's FDI went to China in 2005 suggests that schools of thought other than realism might better explain this type of behavior.

If structural realism were valid in explaining Korea's response to China, then one might also expect it to explain Korea's responses to North Korea or Japan. While it is arguable that qualitative improvements by the ROK military were directed towards the DPRK, this evidence holds little weight when considered against efforts towards reconciliation with the North. And if the ROK were indeed faced with rising threats from the DPRK, one would also not expect to see efforts to distance itself from the US, or to decline participation in the US-Japan led TMD program out of deference to the PRC.

Domestic Grand Strategy Theory

Though not a parsimonious school, ideational liberal hypotheses, such as domestic grand strategy theory, can sometimes provide significant explanatory power given that a country's domestic political configuration and norms are considered jointly. How does domestic grand strategy compare with structural realism in explaining Korea's response over time?

Within each of the two time periods (1992 to 1998, 1998 to 2008), domestic grand strategy explains Korea's economic policy response to China. Despite successive efforts of Kim Young Sam, Kim Dae Jung and Roh Moo Hyun to alter Korea's domestic political structure by breaking the collusive link between political elites and *chaebol*, this symbiotic bond remained intact; changes over time occurred only with changes in politicians and *chaebol*. While there were some policy changes in the Kim Dae Jung and Roh governments to orient the strategic culture of the country away from a never-ending focus on economic growth—GNPism—the exigencies of the Asian financial crisis meant that economic definitions of security still dominated elite ideation. Though one of the vertices in Korea's triangular structure changed—the shift from the conservatives to progressives—the economic bureaucracy and *chaebol* still retained considerable influence even in 2008. Consistent with what domestic grand strategy would predict about an Asian developmental state, Korea aligned towards China during both time periods. Economically, the ROK's ODA to China encouraged trade and

investment in China, while the government and *chaebol* coordinated commercial diplomacy to help Korean automakers and consumer electronics firms establish a beach head in the China market.

Korea's policy stances towards China in the political and security policy realm seem partially explained by domestic grand strategy theory. A comprehensive political and economic policy alignment towards China afforded Korea tremendous economic gains—a strategic goal of the country—motivated Korea's escalation of strategic ties with China. What began as a “cooperative partnership” in 1998 blossomed into a “comprehensive strategic partnership” in 2008. Domestic grand strategy theory would also predict that Korea would subsume some of its security concerns in favor of economic ones. This prediction is consistent with Seoul's deference to China by not joining the US-led TMD effort, and its willingness to mitigate diplomatic frictions and breaches of diplomatic protocol by the PRC. Absent any direct policy statement or document indicating that Korea's deference to China on diplomatic and political issues was because the ROK subsumed its security interests in favor of economic ones, it is reasonable to ask if domestic grand strategy theory's explanatory accuracy is purely coincidental. Or, is there enough evidence to make an inference that the domestic political structure and ideation embodied in an Asian developmental state also causes policy responses in the political and security realm?

If Korea's economic interests spilled-over to its security perceptions of China, that would serve as evidence of the power of domestic grand strategy theory in explaining its policy response to China. One situation stands out as a plausible example of spillover. Once Korea became concerned that close economic engagement with China would not be to its own economic advantage, the ROK leadership began to alter its policies towards China.

The timing of Korea's decision to construct the Jeju naval base, and linking some of the ROK's low-tier TMD defenses with those of the US, can also be explained by domestic grand strategy theory to the extent that once Korea considered China to be an economic threat, it no longer repressed voices within the elite calling for a more muscular political and security posture to hedge against China.

While there may be doubts as to whether domestic grand strategy theory has monocausal autonomy in explaining *all* of Korea's policy stances towards China over time, it is accurate in pointing to the

domestic sources of policy formation. Both Kim Dae Jung and Roh Moo Hyun held strategic preferences which entertained the possibility of aligning towards China because of shared interests over core issues such as maintaining peace and stability on the Korean peninsula. While these preferences were not of the same type that is assessed under domestic grand strategy theory, they nonetheless point to the importance of considering domestic variables in shaping Korea's response to China.

What is puzzling about domestic grand strategy theory is that the degree of covariation between the independent and dependent variables is inconsistent over time. While the developmental state attributes of Korea remained rather constant over time, Seoul's tilt towards Beijing often occurred in step-wise increases, following changes in leadership. The election of Kim Dae Jung ushered in major changes in Korea's political and strategic policies towards China—the most dramatic shift during the 1998-2008 period—and these were motivated by Kim's Sunshine Policy. The improving political ties and military exchanges under Roh took place in light of his opposition to Korea being a junior-partner of the US.

The prime argument against the validity of the domestic grand strategy theory in explaining the response of Korea vis-à-vis China lies in the possibility that the external security imperative may have actually influenced and perpetuated Korea's developmental state apparatus. Indeed, such an idea sounds plausible at first. Trapped between a major continental power in China and the world's second largest economy in Japan, the ROK needed a means to maintain its own security. Since its security is guaranteed by the US, it is plausible that it could hold an economic definition of security since it could "cheap ride" off the American security umbrella. However, such arguments run counter to the evidence. If the ROK simply wanted to "cheap ride," one would not expect to see efforts to distance itself from the US and continue to advocate OPCON transfer. And, one would not continue to see government economic ministries publish studies that stress means of creating comparative advantage and utilizing China as a means to bolster economic growth.

Although not a subject of this study in that it considers Korea's foreign relations writ-large, does the domestic grand strategy theory offer some additional explanatory power over structural realism in the assessment of Korea's perception of Japan as a threat? A quick survey of some basic indicators and

evidence confirm the feasibility of domestic grand strategy theory in explaining Korea's antagonistic political and economic stances towards its nominal ally, Japan.

Korea and Japan were both, to varying degrees, Asian developmental states. Both were competitors when it came to indicators of technological and economic strength.⁵⁵⁶ Under domestic grand strategy theory, Korea would have been expected to align against Japan in both security and economic terms. The ROK's military modernization efforts confirm efforts to match Japanese capabilities. In comparison to the ROK's policies towards China, it has been far less encouraging of trade and economic engagement with Japan. The diagram below serves as a simple illustration of the differences in patterns of investment.

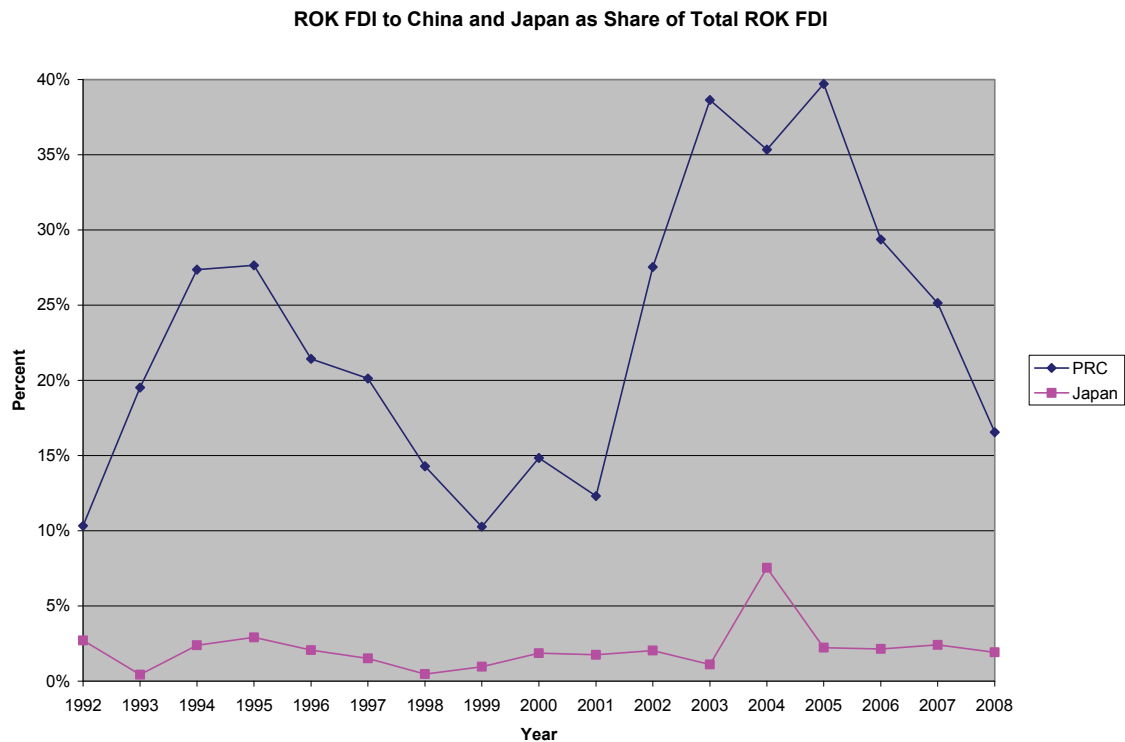


FIGURE 3.7
Source: Korea Eximbank⁵⁵⁷

⁵⁵⁶ See Appendix, Figure A.1.

⁵⁵⁷ Korea Eximbank, 2010.

CHAPTER 4

THAILAND'S RESPONSE TO CHINA

INTRODUCTION

The Kingdom of Thailand was once the historic hegemon in continental Southeast Asia, at times occupying territories now currently part of Burma, Cambodia, Laos and Vietnam. It was the only Asian state to escape colonization by adeptly navigating the competing interests of various imperial powers. During the Cold War, China was viewed as a serious threat to internal stability due to its support of communist insurgents within Thailand. Perceptions of China among Thai elite shifted after the PRC ceased its support for the communist insurgents, and again following its punitive attack against Vietnam.

Unlike the cases of Japan and Korea since the end of the Cold War, Thailand does not consider China to pose a direct security threat. Rather, what concerns Thai elites the most are internal threats to security, such as drug smuggling, ethnic insurgencies in Thai border areas, and terrorism. Major powers, such as the US and China, are both viewed as assets in mitigating these threats to internal security, many of which originate from areas just outside of Thai borders in Burma. To the extent that China does factor into strategic planning and security concerns, it pertains to China's influence over Thailand's immediate neighbors and historic rivals—Burma and Cambodia. China plays a much larger role in Thailand's economic strategy, and accordingly, Bangkok's policy responses to Beijing have been colored mostly by economic and diplomatic concerns.

Domestic factors have also been influential in shaping Thailand's strategic calculus, and affecting Thailand's diplomatic and security policy stances vis-à-vis China. During the Cold War, Thai elites prioritized economic strength and development as a pathway to securing the nation. The Thai

polity—featuring tight linkages among military, political, and business elites—reinforced and perpetuated a culture which sees national security in economic developmental terms.

This chapter examines Thailand's changing policy stances towards China since 1992. As with previous cases, it begins with a section describing the historical baselines of Thailand's policy stances towards China prior to the 1990s. I describe Thailand's historical response to China, then outline the variables affecting Thailand's response to China—external threats in Thailand's immediate vicinity, the role China and the US have played in shaping those regional threats, and domestic political structure and ideational variables. Thailand's policy responses to China are then described and assessed over two time periods: 1992 to 2001, and 2001 to 2008. The time periods were chosen because 2001 demarcates the beginning of a significant shift in Thailand's policy response to China. For each time period, I assess Thailand's response against the two analytical frameworks discussed in the theoretical chapter: structural realism, part of the neorealist school; and domestic grand strategy theory, an ideational-liberal explanation.

BACKGROUND – THAILAND'S CHINA POLICY IN THE 1970s AND 1980s

The following section provides the necessary historical context to assessing Bangkok's response to Beijing. Given that the primary variable in determining Thailand's perception of and response to China has been China itself, the first section describes the bilateral relationship. Following is a description of how Thailand perceives China through the prism of its regional concerns over Burma and Indochina, and the role of the US. The section concludes with a description of Thailand's national conditions prior to 1992.

1. Political/Security Background

Thailand's relations with China have been shaped by a variety of international and domestic forces prior to and during the Cold War, of which an important determinant has been the actions of China itself. Political and security perceptions of China among the elite over the years have been colored by mostly positive historical relations between the two entities. Ties between the two have been

historically deep, with security perceptions motivated and determined by economic and commercial interests. For example, in the 18th century, Taksin encouraged Chinese immigration to revive Siam's economy.⁵⁵⁸ Many Chinese families had close ties with Thai royalty, and because of these ties, were often enormously wealthy, further strengthening their role in the politics of the Kingdom.

During the Cold War, Bangkok saw Beijing's support of communist insurgency in Thailand, and China's actions in countries adjacent to Thailand, as antithetical to its own security.⁵⁵⁹ China's military support of Burma—the first non-communist state to formally recognize the PRC—was one domain of concern.⁵⁶⁰ The other related to Thailand's concern over Vietnam's expanding sphere of influence in Indochina.⁵⁶¹ A turnabout in external circumstances in 1979—the Vietnamese invasion of Cambodia and the cessation of Chinese support for communist insurgents in Thailand—resulted in a reversal of fortunes and the beginning of a steady improvement in Sino-Thai relations.⁵⁶² China's efforts to improve its ties with all southeast Asian nations with a significant ethnic Chinese population, by severing citizenship claims over ethnic Chinese residing abroad with its 1980 Nationality Law, further eased tensions with Bangkok.⁵⁶³

The other variable driving improved Sino-Thai relations was that of improving Sino-US ties. Because of the importance of the US alliance to nurturing Thailand's military-led government and other Thai elites—particularly Thai entrepreneurs of Chinese heritage—the leadership took a very

⁵⁵⁸ Baker and Phongpaichit, 2009, p. 32.

⁵⁵⁹ This is because Bangkok's historical threats revolved around territorial encroachment from Burma to the west, and Indochina to the east. Burma was a historic enemy and threat in the 1600s and 1700s. The Burmese twice destroyed Thailand, first during the Ayutthaya Reign in the 16th century, then again in the 18th century. Highlighting its concern over the importance of maintaining a secure western border, Thailand partnered with the British empire to protect the Burmese flank after its fall to Britain in the 19th century. During WWII, Thailand partnered with the Japanese to seize territories it had previously lost to Burma

⁵⁶⁰ After the 1988 State Law and Order Restoration Council (SLORC) took power, the Burmese air force sent generals to the PRC, procuring both fighter and transport aircraft, significantly upgrading Burma's air capabilities (Selth, 1998, p. 396).

⁵⁶¹ Historically, Thailand also kept close watch on the Indochinese territories on its eastern flank. Prior to the 20th century, major parts of modern-day Laos and Cambodia had been under the domination of Thailand as tributary states.

⁵⁶² Mutual alarm in both Beijing and Bangkok over Hanoi's belligerence aligned the two countries goals and facilitated a gradual improvement in relations.

⁵⁶³ The Nationality Law of 1980 ended the concept of dual nationality, encouraging residents of Chinese heritage in Southeast Asian states to renounce their Chinese citizenship, and allaying the concerns of Southeast Asian leaders who had harbored concerns that ethnic Chinese could serve as a fifth column in their domestic political arena.

pragmatic view of such ties, often taking cues from its patron in Washington.⁵⁶⁴ When the US wound down its operations in Vietnam during the 1970s and Nixon implemented the US' rapprochement to China, Thailand followed suit by increasing efforts to restore ties with China. This omni-directional trend accelerated in the 1980s.

2. Economic Relations with China during the Cold War

Trade and commerce grew rapidly after the consummation of formal diplomatic relations in 1975. Both the Thai and Chinese governments enabled and facilitated trade through agreements, with the first trade agreement signed in 1978, and the establishment of the Thailand-China Joint Committee on Economic Cooperation in 1985.⁵⁶⁵ Influential Thai businesses, as epitomized by the CP Group, invested heavily in China to the degree that for a time during the 1980s, it was the largest single foreign investor in China.⁵⁶⁶ Trade also grew rapidly since normalization of bilateral ties. Exports to China (Hong Kong included) rose from US \$211 million in 1976 to US \$559 million in 1985.⁵⁶⁷ During the 1980s, Thailand's major exports to China comprised agricultural products and commodities such as rubber and leather, while imports from China included oil, cement and coal.⁵⁶⁸

3. Domestic Political Conditions and Background – State Structure and Ideation

To better understand the nature of Thailand's strategic perceptions and its relations with China, neighboring powers and the US, it is important to peer into Thailand's domestic landscape. For

⁵⁶⁴ Thailand's close relationship with the US during the Cold War was grounded in the united stand against the spread of communism in southeast Asia. Washington viewed Bangkok as a base for containing communism, while Thai military leaders benefited from a close security relationship with the US which served as justification for their hold on power. Washington and Bangkok signed the Thanat-Rusk communiqué of 1962, a de facto collective/mutual defense treaty. Until 1976, US Thai relations resembled a patron-client relationship. Shared anti-communist goals and a military-dominant Thai society facilitated this relationship. (Chambers, 2004, p. 462). Thailand's military rulers held security and economic development goals that also meshed with those of the US; and the US promoted economic development to stabilize and secure Thailand.

⁵⁶⁵ The Joint Committee was established to promote bilateral trade. For the text of the agreement, see Kingdom of Thailand, 1985.

⁵⁶⁶ The CP Group was the first foreign invested company in China. See also Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 136.

⁵⁶⁷ Author's calculations based on data from United Nations Statistics Division, various years.

⁵⁶⁸ Japan Economic Newswire, 1990.

much of the Cold War period, two nodes of power jostled for influence in Thailand's domestic polity: the military/political elites, and business interests. Military officers and politicians were distinct entities, but because so many political elites either functioned concurrently, or were former military officers, I treat the military and politicians as one node of influence. The monarchy has also served as an important backdrop of influence, and has sounded its crucial moral voice at certain critical points in Thailand's domestic political arena.

Leadership and Bureaucratic Landscape, Elite Conceptions of Security and Economic Strategy

The influence of the military on Thailand's domestic polity cannot be overstated. Prior to and during the Cold War era, generals Phibun, Sarit and Prem left an indelible mark on norms of conceptions of security, the structure of policymaking institutions, and the patterns of interaction among these institutions. All three played a major role in defining Thailand's strategy of economic development. While some of these events occurred over half a century ago, I describe them because much of Thailand's contemporary domestic polity bears fingerprints of the military-statism promulgated by earlier generals.

Phibun Songkhram, who served as defense minister, then prime minister during the late 1930s and once again as prime minister after WW II, was one of the key players in securing Thailand as a nation-state and fostering domestic stability. Combining fascist tendencies with economic nationalism, Phibun's government advanced a "Thailand for the Thai" ethos and changed the name of Siam to Thailand in 1939,⁵⁶⁹ papering over the heterogeneity which existed in Siam by advancing "the interests of the dominant ethnic group, the Thai-speaking people of the central plains...against the interests of other Thai-speaking populations and the ethnic Chinese."⁵⁷⁰ Phibun adopted the views of Wichit Wathakan—his, and also Sarit's advisor—by emulating Japanese fascism in order to advance national development and achieve parity with the West.⁵⁷¹ During his tenure as prime

⁵⁶⁹ Wyatt, 2003, p. 243.

⁵⁷⁰ Reynolds, 1991, p. 8.

⁵⁷¹ Of Phibun, Reynolds notes: "Parity with the West was a preoccupation of the Thai elite at this time, and parity applied to dress and deportment as well as to sovereignty." (Ibid, p. 8). Phibun and his advisor, Wichit Wathakan, an ideological leader of Thai military politics between the 1930s to 1950s, emulated the Japanese

minister, Phibun established the military as the primary authority on promoting Thai national culture and identity, and creating a mechanism of “state-identity creation and state-building...[which replaced]...constitutionalism with military statism.”⁵⁷² In this process, Phibun nurtured a military which functioned more as a bureaucracy than a professional defense force.⁵⁷³

Field Marshal Sarit Thanarat leveraged Phibun’s accomplishments and created a regime whose impact has been the most profound on Thai politics, and especially with respect to the politics of economic development. Sarit, who had assisted Phibun’s rise to power, launched his own coup against Phibun in 1957. Unlike Phibun, who maintained a façade of democracy while attempting authoritarian rule, Sarit abolished the constitution and declared martial law in 1958.⁵⁷⁴ For the five years until his death in 1963, Sarit implemented a regime, or system of governance, referred to as “despotic paternalism.”⁵⁷⁵

The Sarit system of despotic rule combined modernization, economic development, and patriotic ideals to unify Thailand and create a national consciousness.⁵⁷⁶ Unlike Phibun who sidelined the monarchy, Sarit’s vision for development was couched in a paternalistic mindset where legitimacy for policies were backed by his relationship with the Thai king.⁵⁷⁷ To stabilize regions plagued by insurgency and disorder, Sarit “attempted to legitimize its rule in democratic terms by advocating economic development in the public interest.”⁵⁷⁸ Indeed, the Sarit government’s emphasis on development had substance. He advanced rural development through highway construction,

bushido code and admired Japanese fascism as a way of strengthening military ideology and “Thainess.” (Phongpaichit and Baker, 2002, p. 122).

⁵⁷² Samudavanija, 1991, p. 64. Samudavanija argues that Phibun was the most instrumental in creating the foundations of Thai state identity.

⁵⁷³ Samudavanija notes that Phibun created “an entrenched bureaucratic state with a specific identity imposed on civil society.” (Ibid, p. 77).

⁵⁷⁴ Wyatt, 2003, p. 258.

⁵⁷⁵ Chaloeontiarana, 2007.

⁵⁷⁶ Ibid, pp. 151-155.

⁵⁷⁷ Ibid, pp. 151-155. Wyatt notes that “The king was restored to the apex of the moral, social, and political order.” (Wyatt, 2003, p. 271). The Sarit government gained authority and credibility through association with the monarchy, and by utilizing technocrats and foreign-educated Thais (Wyatt, 2003, pp. 271-272).

⁵⁷⁸ Wyatt, 2003, p. 272.

agricultural research and irrigation, and focused on the particularly backward region of the northeast, or *Isan*.⁵⁷⁹

The institutions and norms established during the years of the Sarit government were crucial to Thailand's economic development and domestic polity.⁵⁸⁰ Sarit restructured the economy between 1957 and 1962 to favor the accumulation of capital.⁵⁸¹ With US assistance, Sarit established the National Economic Development Board (NEDB) in 1960, whose main purpose was to draft five-year economic development plans.⁵⁸² To encourage foreign investment and economic growth in the private sector, Sarit also established the Board of Investment (BOI) and Industrial Finance Corporation, respectively.⁵⁸³ Sarit marketed slogans emphasizing the importance of development—*phatthana*—such as: “work is money, money is work which brings happiness.”⁵⁸⁴ Emphasis was also given to developing technologically advanced (at that time) industries, such as the automobile sector; the 1962 Investment Promotion Act “provided significant incentives for auto assembly and parts production.”⁵⁸⁵

Sarit's death in 1963 did not mean a disruption in five-year economic plans or his version of despotic paternalism emphasizing *phatthana*. His deputy, Thanom Kittakachorn, ruled until 1973, embraced Sarit's vision of *phatthana*, and effectively continued his policies.⁵⁸⁶ For example, industrialization and export promotion continued, with the Bank of Thailand playing an important role during the 1960s and 1970s in advocating for exports, leading to the 1972 Investment Promotion Act.⁵⁸⁷ Economic growth and development was executed through an import substitution industrialization

⁵⁷⁹ Ibid, p. 272. An emphasis on modernity, hygiene and cleanliness were partial motivation for Sarit's implementation of water and road projects in rural Thailand (Chaloemtiarana, 2007, pp. 151-155).

⁵⁸⁰ Muscat, 1994, p. 88.

⁵⁸¹ Phongpaichit and Baker, 2002, p. 131. Part of this strategy was motivated by an external desire: to cultivate an alliance with the US and bandwagon for financial aid. Part was motivated by aims of military domination and stabilizing the domestic situation.

⁵⁸² Ibid, p. 132.

⁵⁸³ Ibid, p. 132.

⁵⁸⁴ Ibid, p. 134.

⁵⁸⁵ Doner, 1988, p. 1546.

⁵⁸⁶ Muscat, 1994, p. 86.

⁵⁸⁷ Phongpaichit and Baker, 2002, p. 149.

(ISI) strategy.⁵⁸⁸ Despite the change in leadership and political instability between 1973 and 1980, Bangkok's economic bureaucracy continued to function following the previously established trajectory—advocating on behalf of economic development and exports. The fourth five year plan of 1976 was decidedly pro-export.⁵⁸⁹ Economic planners stressed the need for export-oriented manufacturing to contributing to growing technical capabilities. During 1977-1980, new rules mandated an increase in local content for vehicles and encouraged firms to innovate and contribute to technological advancement.⁵⁹⁰ Economic developments were overseen by the military, where Thai army commanders, starting with Kriangsak Chomanan in 1979, would enter politics by associating themselves with successful political parties—an arrangement allowing the military to retain unobtrusive control over government.⁵⁹¹

Close ties between the economic bureaucracy and military elites were reprised after Prime Minister Prem Tinsulanonda gained power in 1980.⁵⁹² Prem did not remove the symbolic power accorded to the monarchy under the Sarit system, and accelerated economic growth efforts through the implementation of a macroeconomic structural adjustment program (spelled out in the fifth five-year plan of 1981-1986), and the goal of developing a “Thai Inc.” that emulated the success of “Japan Inc.”⁵⁹³ What was unique about the fifth Five Year Plan was the fostering of cooperation between public and private sector, as under the Joint Public Private Sector Consultative Committee (JPPCC).⁵⁹⁴ As Thailand became a popular manufacturing center, foreign funds flowed into

⁵⁸⁸ During the late 1960s (after Sarit's death), there were calls to shift Thailand's strategy towards export oriented industrialization (EOI).

⁵⁸⁹ Phongpaichit and Baker, 2002, p. 149.

⁵⁹⁰ Doner writes: "The new rules computed LC (local content) by assigning points for each part based not only on existing and expected local technical capacity, but also on the part's contribution to the growth of such capacity." (Doner, 1988, p. 1551).

⁵⁹¹ Ganesan, 2004, p. 27. Many Thai prime ministers also had a military pedigree, with many previously having served as military generals. Gradually, though, pluralization of politics meant a waning of military influence over politics.

⁵⁹² Muscat, 1994, p. 170.

⁵⁹³ Ibid, p. 176. To supervise this economic bureaucracy, Prem created the Council of Economic Ministers. The military elite, especially military generals, maintained their influence in business by securing wealth from *kin muang*, "leveraging their political power to divert state revenues, impose informal taxes, and collect rent from monopoly businesses...high-ranking officers alleged to have interests in logging concessions in Burma and Laos." (Phongpaichit and Baker, 2002, p. 349).

⁵⁹⁴ Muscat, 1994, p. 183. Joint Public Private Consultative Commission (JPPCC) worked with businesses to streamline commerce (Phongpaichit and Baker, 2002, p. 161).

Thailand, with direct investment from Japan occupying the bulk of total inflows.⁵⁹⁵ In terms of domestic policy during the 1980s, the army expanded its reach by forming a department of non-military affairs.⁵⁹⁶

Pluralization of the domestic polity during the late 1980s also coincided with a shift with how Thai elites saw the strategic orientation of their country. During this time, there was a concerted effort to position Thailand as a future hub of the southeast Asian region—unsurprising given Thailand’s historic position on the continent.⁵⁹⁷ The election of Chatichai Choonhaven as prime minister in 1988 symbolized the re-emergence of “full democracy” after the semi-democratic period of Prem.⁵⁹⁸ The foreign policy implications of Chatichai’s election were consequential, as Chatichai wanted to reinstate the vision of “Swannaphum,” or golden peninsula, in which the vast resources of Indochina and Burma would help bolster Thailand’s economic power.⁵⁹⁹ Such an orientation also had downstream implications on Thailand’s relations with China, as it sowed the seeds for a more economically driven foreign policy. To this end, Chatichai famously said that he wanted to “turn the battlefields of Indochina into marketplaces.”⁶⁰⁰

However, Chatichai also ushered in a new phase in Thailand’s domestic polity, whereby the influence of economic technocrats diminished while Chatichai and his personal associates assumed greater voice in development and economic policy.⁶⁰¹ Chatichai moved to “de-militarize” the government through the State Administration Procedure Act of 1991, which downsized the army—albeit still allowing it to retain influence in Thailand’s bureaucracy.⁶⁰² While Chatichai’s departure in 1991, followed by the violent democracy protests of May 1992, led to a subsequent resurgence of

⁵⁹⁵ Phongpaichit and Baker, 2002, p. 160-161, Table 5.5.

⁵⁹⁶ Pathmanand, 2001, p. 26.

⁵⁹⁷ Ganesan, 2004, p. 37.

⁵⁹⁸ Maisrikrod, 1994, p. 49. After the mid-1980s, civilian politicians began to rise and mount attacks on military’s dominance. Civilian politicians “asserted the power of Parliament against military and bureaucracy.” (Phongpaichit and Baker, 2002, p. 380).

⁵⁹⁹ Masviriyakul, 2004, p. 308.

⁶⁰⁰ Weatherbee, 2005, p. 39.

⁶⁰¹ Muscat notes that the Chatichai business cabinet meant that individual businessmen and groups “captured the very mechanisms designed to regulate them.” (Muscat, 1994, p. 184). Pasuk and Baker note that the NESDB’s influence waned in the 1980s, when it evolved from the planning commission it was in the 1960s to more of an “economic watch-dog in the 1980s.” (Phongpaichit and Baker, 2002, p. 368).

⁶⁰² Pathmanand, 2001, p. 26.

technocratic influence, the trend towards economic liberalization and more fluid, personality and cabinet-level driven economic policymaking came hand-in-hand with more populist politics.

Business Landscape and the Symbiotic Relationship between Business and Political/Military Elites

The second node of influence on the contours of Thailand's domestic political complexion was that of business interests, of which ethnically Chinese Thai played an important role.⁶⁰³ The business elite were influential in their own right during much of the Cold War era, but their influence in the halls of government increased after the 1980s due to the pluralization of Thai politics which saw the waning of the military-bureaucratic elite.⁶⁰⁴

How did business interests accrue political influence? The influential role of business had its foundation since the economic development strategy of Thailand's military-led government. During the Cold War, state-driven capitalistic policies, and the government's development strategy, carved patterns of relations among big business, the government, and ethnic Chinese entrepreneurs. For example, the Sarit-established Board of Investment's 1959 measures to promote domestic and foreign investment engendered the formation of major Thai-Chinese industrial groups with close links to the military and the bureaucracy.⁶⁰⁵

The influence of business in Thailand's domestic political scene increased during the 1980s due to external events and domestic leadership changes. After Vietnam's invasion of Cambodia, and China's responsive military attack on Vietnam, ties between Bangkok and Beijing warmed, meaning that

⁶⁰³ The ethnic Chinese fully identified themselves as Thai, had Thai names, and often were of mixed Chinese-Thai heritage.

⁶⁰⁴ McCargo, 2002, p. 60.

⁶⁰⁵ Dixon, 1995, p. 41. However, this was not always the case as there were a variety of viewpoints. Perceptions that the Chinese government may have used ethnic-Chinese Thai businessmen as a front for instability within Thailand colored Thai military leaders' views of economic engagement with China during the early days of the Cold War. In the 1950s, the views of military leaders, who espoused economic nationalism as a way of bolstering Thai identity and cohesion, contrasted with those of civilian leaders who were more inclined to interweave government and private business interests—including those managed by the ethnic Chinese. (Phongpaichit and Baker, 2002, p. 124).

Thai businessmen of Chinese descent were viewed with increasing favor and less suspicion. In 1980s, Thailand changed from being a bureaucratic type of polity to one powered by independent business associations,⁶⁰⁶ further increasing the influence of businessmen in policymaking. When Thailand's economic growth skyrocketed between 1986 and 1991, this trend had the consequence of increasing the voice of large business interests (many controlled by ethnic Chinese) in Thailand's commercial ties. Business elites and politicians (many of whom were former military) formed a close-knit coalition which provided each other with mutual benefits. The example of how the Thai government allowed political and non-economic interests to enter its policies can be seen by how successive governments intervened in rescuing individual banks 32 times between 1983 and 1996.⁶⁰⁷

Interaction of Domestic Political Structure and Ideation

During much of the Cold War, and even after, Thailand's military played a powerful role in its domestic politics. How was the military able to maintain its influence in domestic political institutions and economic policy? One reason was that the military operated more like a bureaucracy than a potent war machine; maintaining territorial integrity and fighting wars was never the primary concern of the military. Rather, the military was concerned with business and politics, and how it could profit from extracting and selling Thailand's natural resources.

To secure its advantageous position, members of the military frequently ran for parliament, thereby spreading its influence into civilian political circles and blurring the boundaries between military and civil.⁶⁰⁸ Before the mid-1980s, the tentacles of the army's influence spread far and deep.⁶⁰⁹ As such, the military became part of circle of corruption linking political/government elites and business

⁶⁰⁶ Ganesan, 2004, p. 38. This was especially the case after the Chatichai government took hold of power.

⁶⁰⁷ Dixon, *Ibid*, p. 52. Note that until late 1980s, banks were only significant source of funding for Thai businesses.

⁶⁰⁸ McCargo, 2002, p. 51.

⁶⁰⁹ Pasuk and Baker note that the head of army "wielded enormous power and still expected to succeed to the premiership. Bureaucrats and generals controlled the key ministries of Defence, Interior, and Finance, while business politicians dominated Parliament and occupied the minor ministries. This stage was marked by complex and shifting alliances between generals and political cliques." (Phongpaichit and Baker, 2002, p. 380).

leaders in Thailand.⁶¹⁰ The Thai military adeptly involved itself into the larger political goals of economic development by utilizing USAID funds to support rural development projects, projects which were implemented in parallel to ousting remaining communist insurgents and extending amnesty to defectors.⁶¹¹

Like in the cases of Japan and Korea, close ties between powerful business constituencies and political elite provided the socioeconomic “glue” which enabled governance and policymaking. And, similar to in Japan and Korea, Thai elites also elevated the concept of economic development in the hierarchy of strategic thought. In the Thai political construct, the idea of “development” was wrapped with notions of enhancing state power, promoting anti-communism, and strengthening the elite.⁶¹² Unlike in Japan and Korea, though, there was less emphasis on crafting an industrial policy aimed at creating comparative advantage in so-called sunrise industries, and more on leveraging development activities for financial gain of political and business elites.⁶¹³ Some of these activities, such as public works projects, had the ulterior motive of expanding state control over areas facing insurgencies.⁶¹⁴ To the extent that there was an industrial policy, it was very different from those of Japan and Korea, which stressed export promotion. Instead, Bangkok implemented the import substitution industrialization (ISI) policies, which were in place until 1980.⁶¹⁵ Yet, Thailand’s business elite nonetheless benefited from such policies. And at the cusp of the Cold War’s end, close ties between the political elite and business tycoons were encouraged by the common belief in economic growth, and the tacitly understood norm that the best form of government in Thailand consisted of close ties between these two bodies.

⁶¹⁰ Thailand’s close relations with the US during the Cold War, and resultant US patronage, helped to strengthen the Thai military, growing it to a bloated bureaucracy. Exploiting the US presence, the military took kick-backs on arms purchases, and monopolized services which supported US troops and personnel. The resulting circumstance, in which the military penetrated civilian economic circles, is illustrated by the fact that a prominent Thai leader in the 1960s, General Sarit, sat on 22 company boards (Baker and Phongpaichit, 2009, p. 170).

⁶¹¹ Ibid, p. 196.

⁶¹² McCargo, 2002, p. 56.

⁶¹³ There was a strong economic bent to the logic of development, where the economic imperative benefited the military, and also Sino-Thai entrepreneurs. These entrepreneurs then worked with bureaucrats and the military to reap gains (Ibid, p. 56).

⁶¹⁴ Ibid, p. 56.

⁶¹⁵ The oil shocks of the 1980s led to economic stagnation. The World Bank and IMF made recommendations to restructure Thailand’s economy, but it was not until 1987-1990 that some of these recommendations were implemented. (Dixon, 1995, p. 45).

THAILAND'S RESPONSE TO CHINA: 1992—2001

1. Thailand's Political and Security Policy Response to China: 1992-2001

Strategic Perceptions

Thailand's political and security policy towards China emphasized engagement and mutually advantageous exchanges, based on previously established patterns of frequent contact between Thai and Chinese military elites.⁶¹⁶ During the 1990s, Bangkok's leaders employed military and political ties with the Chinese to bolster Thailand's own defenses and military.⁶¹⁷

Leveraging connections with China was part of Thailand's larger effort to strengthen its military force, ostensibly in preparation to deter and defeat a variety of threats. Though Thailand's military modernization was not necessarily directed towards China, they are described below because overall military modernization reflect changing views of the broader regional security landscape, of which China forms an integral part.⁶¹⁸ Additionally, according to the existing published body of knowledge, changes in Thai military procurements and force structures over time seem to suggest preparations

⁶¹⁶ During the Cold War, China provided an ample supply of weapons for the Thai military, often at so-called friendship prices.

⁶¹⁷ For instance, Defense Minister Chavalit, who had close ties with the Chinese military, secured \$300 million in military aid from China in 1995 (Vatikiotis, 1996a). When Chavalit became prime minister in 1996, Yang Shaoming, son of former PRC president Yang Shangkun, was one of the first foreign dignitaries to congratulate him. Apparently, this is atypical, as Thai leaders normally go to China first.

⁶¹⁸ Medeiros et. al. write that irregular dissemination of official government documents related to defense strategy and policy, traced to a history of military secrecy, has meant that it has been difficult to ascertain yearly changes in elite threat perception vis-à-vis China (Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 149). While one can elicit changes in threat perception based on government statements, comments from thought leaders, and a relatively free press, determination of how Thai elites perceive China must be elicited from a combination of actual military procurements, together with security agreements and diplomacy.

that would be appropriate for China-related contingencies more than the guerilla/irregular warfare during the Cold War.⁶¹⁹

In terms of perceptions and strategic preferences, military officers tend to have median views of China which are more cautious than those of their civilian elite-counterparts, and views more favorable of the US than those of their civilian elite-counterparts as well.⁶²⁰ This divided view reflects itself in actual policy outcomes, where Thailand's alignment towards China is paralleled by continued engagement of the US. During this period, extensive military exercises with the US continued, and indeed intensified: US-Thai naval exercises began in 1995 in the form of "Cooperation Afloat Readiness and Training" (CARAT).⁶²¹

Military Procurements and Internal Balancing

A rapidly growing economy until the financial crisis of 1997 helped to fuel the military's procurement plans. While spending as a percentage of Thailand's GDP shrunk because of meteoric economic productivity growth, absolute spending did rise at dramatic rates. (See Figure 4.1 below) Flush government coffers, combined with leadership that was less doctrinally connected with fighting internal security and counter-insurgency engagements, meant rapid increase in acquisitions of warships, fighter aircraft, and other technologically advanced systems that could allow Thailand to meet any theoretical challenge emanating from China or other regional powers.

New defense plans emphasized the importance of naval power, indicating that the new Thai security elite had become concerned with changing external security threats in the form of conflicting maritime claims.⁶²² The navy commander in 1993 had noted Thailand's goal of moving from a "brown water to blue water" force.⁶²³ Protecting sea lanes of communication was (and remains today)

⁶¹⁹ Ibid, p. 149.

⁶²⁰ Ibid, p. 149-150.

⁶²¹ United States Navy, 2009.

⁶²² Three documents were released in 1993: National Preparedness Plan of 2535 (1993), National Defense Policy of 2535-2538 (1993-95), and the Development for Added Security Plan of 2536 (1993). (Wattanayagorn, 1998, pp. 438-439).

⁶²³ Tasker, 1993, p. 30. The Royal Thai Navy (RTN) budget just prior to the financial crisis had essentially doubled since 1986 levels (Jane's Information Group, 1998d). By 1997, the navy had taken delivery of six

one of Bangkok's top priorities, as outlined in Thailand's only Defense White Paper of 1996.⁶²⁴ While Thailand did not have any overlapping territorial claims with China, it did encounter disputes over exclusive economic zones (EEZs) with Malaysia, Vietnam, Cambodia and Burma. Hence, Thailand's naval procurements appear to have been directed more towards protecting these EEZs, and motivated more by balancing Malaysia's military acquisitions, than by China's rising naval prowess.⁶²⁵

Thailand's air force embarked on a modernization and expansion program as well, acquiring 36 F-16 A/B fighters between 1988 and 1996.⁶²⁶ This included the delivery of an additional squadron of (18) F-16s, which were substituted for the more expensive F-18s that had been cancelled due to the 1997 economic crisis.⁶²⁷

While procurements of helicopter carriers, frigates and modern fighters accelerated during the 1990s, they were halted in the wake of the 1997 Asian financial crisis, only to resume gradually as the Thai economy recovered. However, military expenditures as a percentage of GDP never recovered their pre-1997 levels.⁶²⁸

frigates from China, two from the US, and an aircraft carrier from Spain. The Chinese frigates were Jianghu class, which were essentially obsolete and useful for coastal defense. The two US frigates were of the Knox class type (Jane's Information Group, 1998e).

⁶²⁴ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 149. Thailand was supposed to have released another Defense White Paper in 2008, but it has not been forthcoming.

⁶²⁵ This view comes from Ibid, p. 150. In 2001, Navy Chief Admiral Prasert Boonsong announced interested in procuring used submarines, an interest which was sparked by Malaysia's interest in acquiring two used submarines (Jane's Information Group, 2001b).

⁶²⁶ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 148.

⁶²⁷ This squadron of F-16 A/B jets was incorporated in 2003. See Jane's Information Group, 2004b.

⁶²⁸ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 148. See below graphs as well.



Figure 4.1
Source: SIPRI⁶²⁹

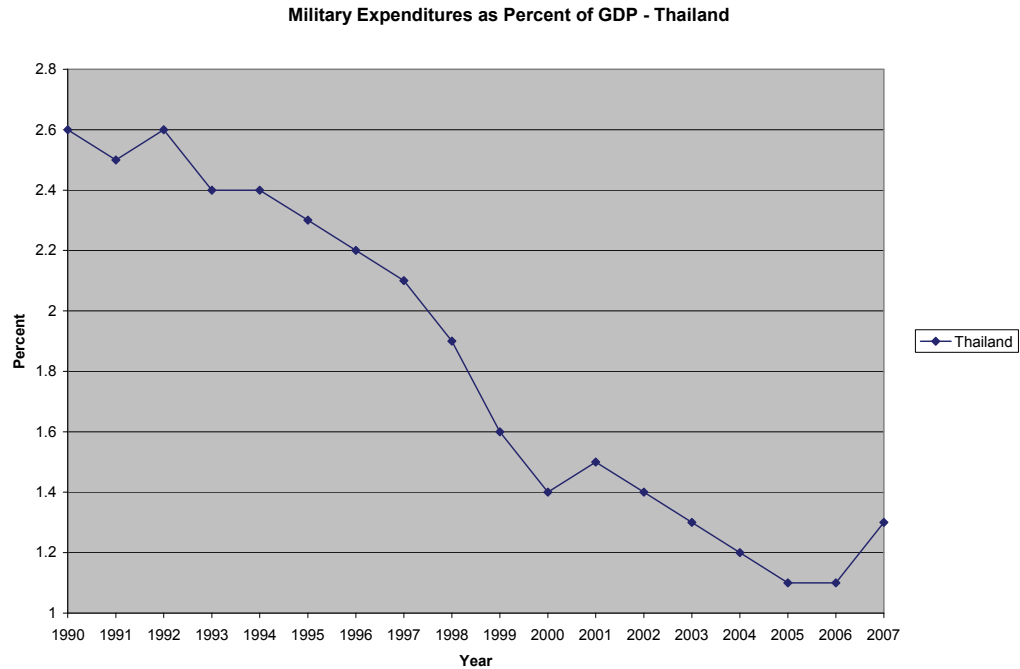


FIGURE 4.2
Source: SIPRI⁶³⁰

⁶²⁹ Stockholm International Peace Research Institute (SIPRI), 2009.

Politics and Diplomacy

Thailand's diplomatic engagement of China flourished during the 1992 to 2001 period. The sheer number of government exchanges provides an indication of the increasingly cooperative relationship between Bangkok and Beijing. Diplomatic agreements and gatherings prior to the 1997 Asian financial crisis tended to include much discussion related to military exchanges and the procurement of Chinese weapons by Thailand. After the Asian financial crisis, engagement yielded agreements for strategic cooperation and financial assistance from China. Between 1998 and 2000, there were more than 1,500 exchanges at all levels between Thailand and China, which exceeded Thailand's exchanges with any other nation.⁶³¹ During 1999, Chuan Leekpai's second administration initiated and signed the "Action Plan for 21st-century Cooperation" with China during Chinese president Jiang Zemin's visit.⁶³² This made Thailand the first country in ASEAN with which China signed a joint statement, cementing Bangkok's position as Beijing's closest ally within ASEAN.⁶³³ A combination of security and economic motivations were likely behind Thailand's initiation of the accord with China, though some note that economic and commercial motivations were quite significant.⁶³⁴ From a political and diplomatic standpoint, Thailand's recognition of a multipolar order in the joint-statement of the Action Plan may have been a statement of the obvious, but does indicate that it desires to hedge its political bets by symbolically equating China on a similar level as that of the US in terms of geopolitical status.⁶³⁵

⁶³⁰ Ibid.

⁶³¹ Snitwongse, 2001, p. 202.

⁶³² Murphy, 2010, p. 12. Murphy notes that Thailand initiated the plan.

⁶³³ Kanchanabut, 1999.

⁶³⁴ Murphy, 2010, p. 12. The bilateral accord contains the clause "The two sides will, on the basis of the principle of equality and mutual benefit, expand their friendly and mutually beneficial cooperation in the fields of trade, investment, agriculture, industry, merchant shipping, science and technology....The two sides will closely cooperate and expand bilateral trade, eliminate trade barriers, prevent market dumping which is detrimental to each other's economies, improve production process and product standard and accord whenever possible favorable consideration to each other's exports. The two sides will encourage and support increased mutual investment and fulfill their obligations as stipulated in the existing agreements concerning investment"(Xinhua News Agency, 1999a).

⁶³⁵ This view comes from Murphy, 2010, p. 12. The relevant section of the actual joint-statement reads: "The two sides have realized that the trend toward a multi-polar world is gaining momentum and the force for peace is growing in strength and that it is the pressing call of the times and an inevitable trend of history to establish a

Thailand's engagement of China was also executed through its position as one of the founding members of ASEAN. ASEAN created the ASEAN Regional Forum (ARF) in 1994, and included China to "socialize" it into peaceful resolution of disputes.⁶³⁶

2. Economic Policy Response: 1992–2001

Thai elites have a history of regarding China as an economic opportunity, both as an export market for its goods, and also as a destination for and source of investments.⁶³⁷ After the increase of civilian influence in Thai elite politics, diplomacy and foreign policy became more economically driven.⁶³⁸ The end of the Cold War, and China's own efforts to embark on market-driven economic growth, helped to fuel Thailand's economic engagement of China during the 1992 – 2001 period.

Bilateral trade has expanded astronomically since 1992. Between 1992 and 1997, the value of Thailand's exports to China increased 178%.⁶³⁹ Already a very trade dependent country, Thailand's export dependency on China as a percentage of GDP has grown steadily, exhibiting rapid growth during the 1990s.(see figure 4.3 below)⁶⁴⁰ Trade with China as a percentage of total trade has also increased over time during this period (Figure 4.4).

new, peaceful, stable, equitable and rational international political and economic order. and the two sides undertake to make active and concerted effort to further develop their bilateral relations and to promote lasting stability and prosperity in the region and in the world as a whole"(Xinhua News Agency, 1999b).

⁶³⁶ Murphy, 2010, p. 11.

⁶³⁷ Part of this elite preference comes from cultural affinity which has established historical patterns of commerce and exchanges. Appreciation of Chinese culture is not frowned upon in Thailand, and many of its tycoons and politicians claim partial Chinese heritage. Even the crown princess is a staunch admirer of Chinese culture and has studied Chinese there.

⁶³⁸ Buszynski, 1994, p. 721.

⁶³⁹ Author's calculations based on UN COMTRADE database. Exports to China include Hong Kong (United Nations Statistics Division, various years).

⁶⁴⁰ By 2000, exports (in total) accounted for over 50% of Thailand's GDP. By 2008, exports accounted for more than 65% of Thailand's GDP. Author's calculations based on World Development Indicators 2009 (World Bank) GDP data, in current US\$.

Rising levels of trade are not predicted by classical trade theory, which argues that economic complementarity drives bilateral trade.⁶⁴¹ While Thailand and China compete in exports of agricultural products and manufactured goods, bilateral trade has generally been in Thailand's favor; since 1992, Thailand has maintained a positive trade balance with China.⁶⁴² (Figure 4.4) Part of the reason is that while Thailand and China compete in certain product areas, trade in intermediate goods and intra-industry trade suggest that competition may also co-exist with trade complementarity.

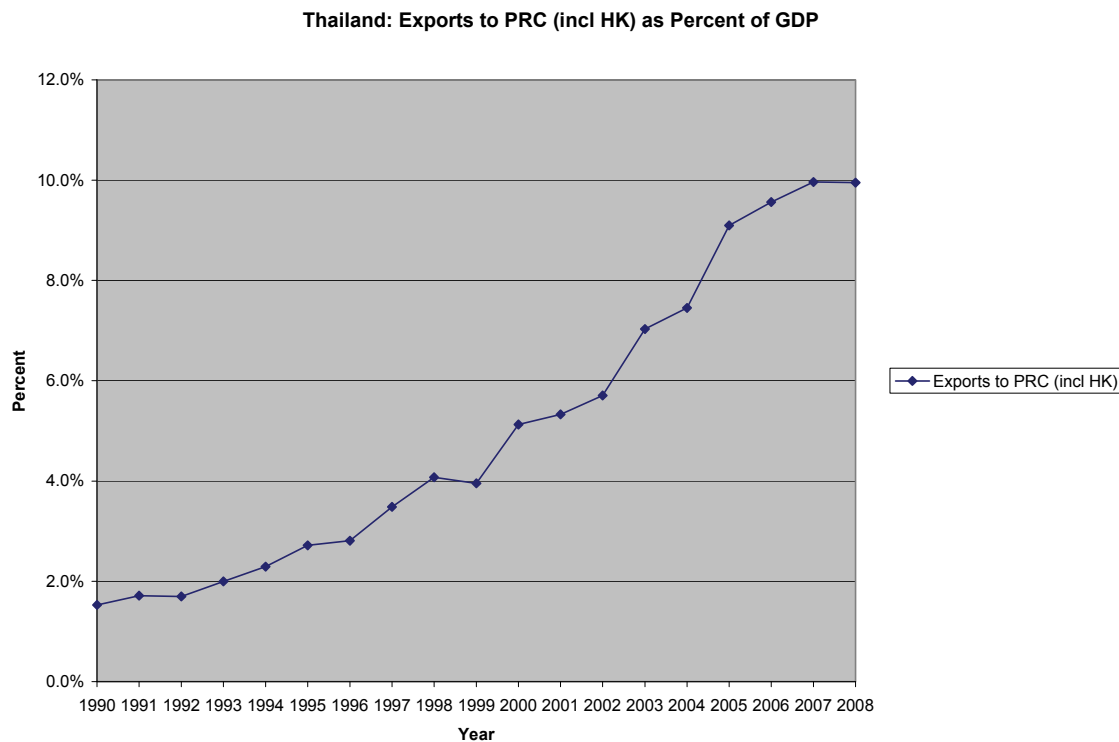


FIGURE 4.3

Sources: Calculated from UN Comtrade Data and World Bank WDI 2009⁶⁴³

⁶⁴¹ Thailand's economy is more complementary with those of Korea or Japan than China. Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 132. Based on 2000 PC-TAS data (UNCTAD)/WTO, Trade Analysis System, Thailand and China are not complementary. Rather, they are competitors given China's low labor costs. See Sussangkarn, 2004.

⁶⁴² Based on World Bank, World Development Indicators data, various years.

⁶⁴³ United Nations Statistics Division, various years, and The World Bank, Various Years.

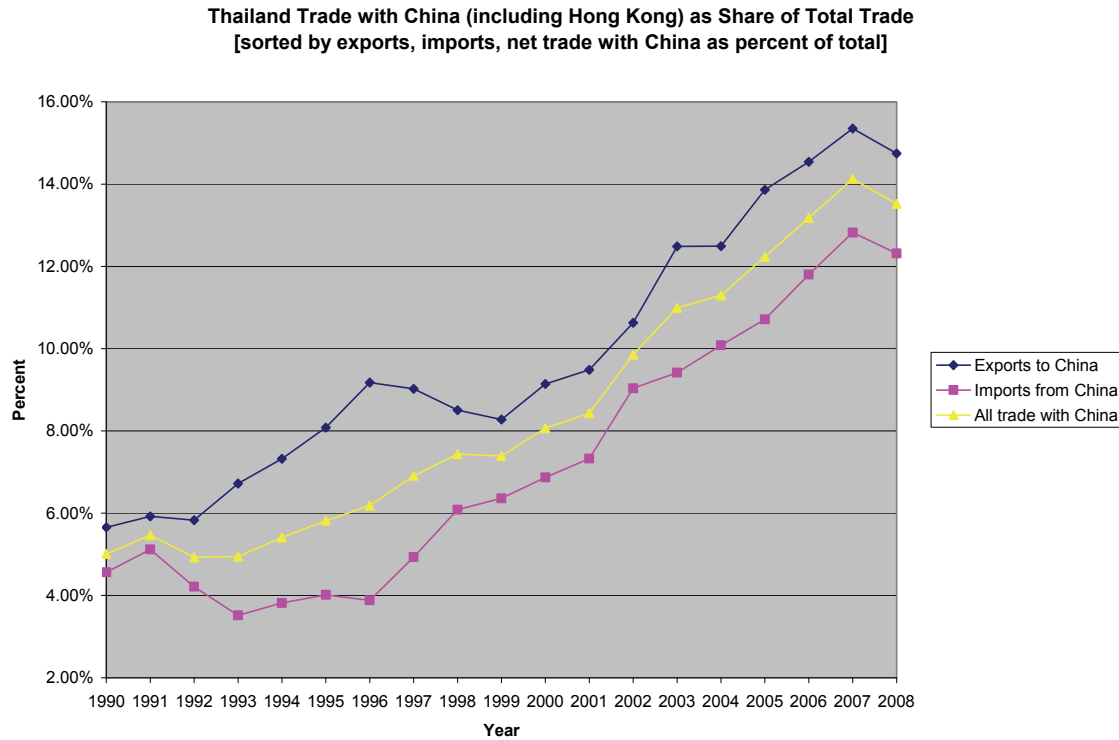


FIGURE 4.4

Sources: Calculated from UN Comtrade Data, various years⁶⁴⁴

Growing exports from Thailand to China have been driven, in part, by flows of foreign direct investment (FDI) from Bangkok to Beijing. Most Thai FDI during this period, and prior to the 1997 financial crisis, was motivated by Thai firms seeking to take advantage of China's large market size and lower costs.⁶⁴⁵ Several factors contributed to increasing overall outward flows of FDI from Thailand: the Thailand Board of Investment's (BOI) support of outward FDI beginning in 1991, financial liberalization in 1992, and the creation of the Thai Export Import (EXIM) Bank in 1994.⁶⁴⁶ On the cusp of the financial crisis, China (counting Hong Kong) was the largest recipient of accumulated FDI (FDI stocks) from Thailand.⁶⁴⁷

⁶⁴⁴ United Nations Statistics Division, various years.

⁶⁴⁵ Wee, 2007, p. 93.

⁶⁴⁶ Ibid, pp. 95, 109, and Annex A. Financial liberalization in 1992 included the establishment of the Bangkok International Banking Facilities (BIBF), which facilitated the international transaction of funds. See Footnote 3 of Wee, 2007.

⁶⁴⁷ Ibid, Table 2, p. 94. Based on cumulative net flows of Thai FDI to China and Hong Kong for the 1986-1996 period. I include Hong Kong since most investment to Hong Kong is destined for China.

While raw materials (crude plastics, chemicals) comprise a large portion of Thailand's exports to China, Thailand was also a major exporter of automobiles to China during this period. In the years prior to the Asian financial crisis, a significant portion of automobiles produced in Thailand were exported to China. Most of the automobiles produced in Thailand were manufactured by Japanese firms, but these trade patterns underscore the importance of Thailand as a regional base for production of value-added and technologically driven goods. (See Figure 4.5)

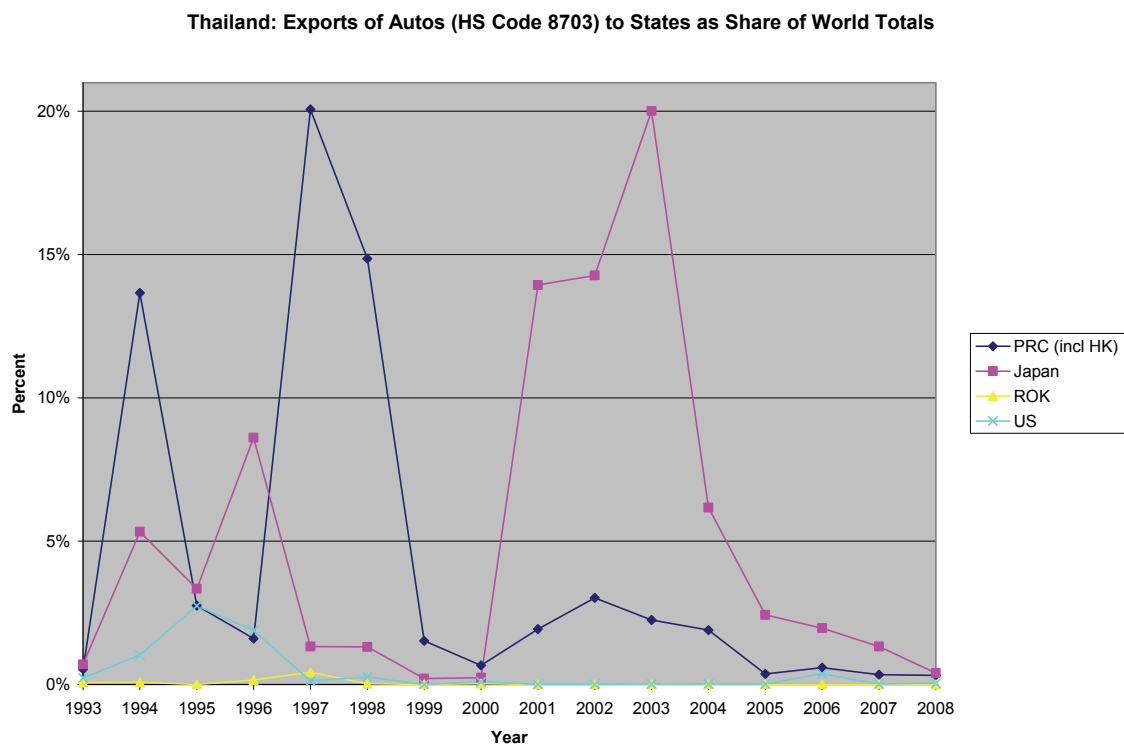


Figure 4.5
Source: UN Comtrade Database⁶⁴⁸

During the 1994-2001 period, overall flows of FDI to China comprised a large portion of total outbound FDI.⁶⁴⁹ While Thailand's exports to China increased as a share of GDP during this period,

⁶⁴⁸ United Nations Statistics Division, various years.

⁶⁴⁹ Data is not available for the pre-1994 period to calculate the portion of Thai FDI bound for China.

foreign direct investment flows were erratic during this period, exhibiting a slight downward tendency (FIGURE 4.6).⁶⁵⁰ And as a percentage of total outbound FDI, direct investments destined for China also exhibited a downward trend, perhaps reflecting Thailand's increasing share of FDI bound for lesser-developed economies in ASEAN. (FIGURE 4.7).

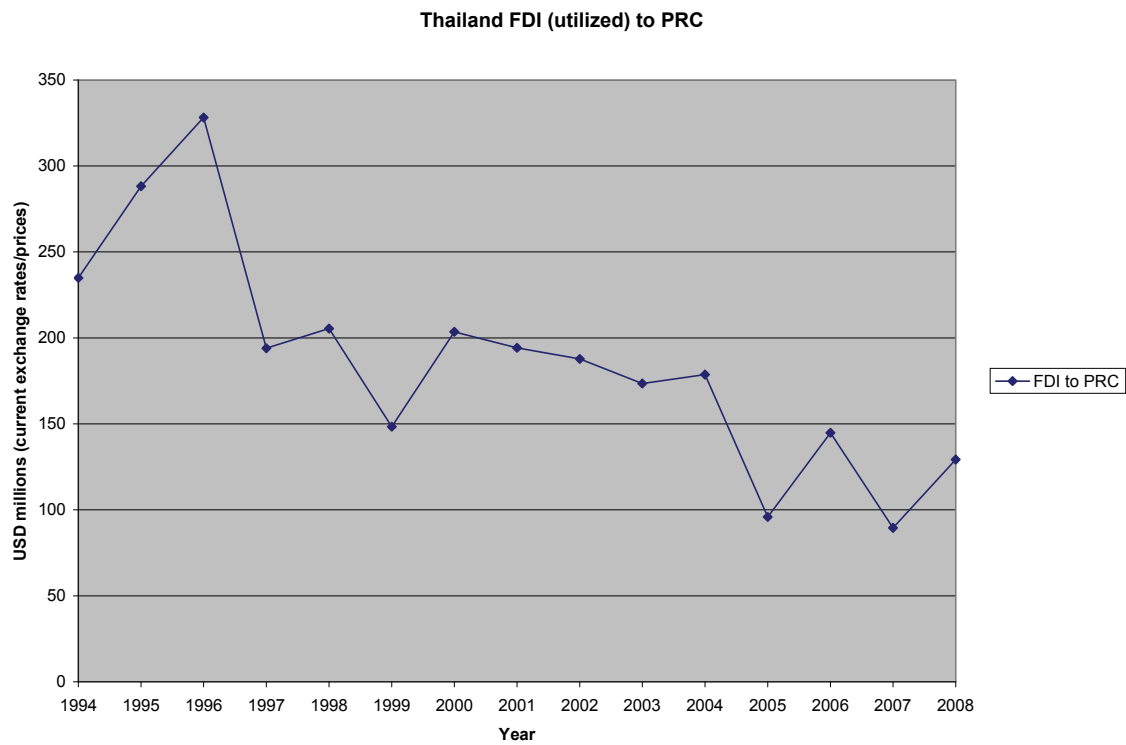


FIGURE 4.6

Source: China National Bureau of Statistics, various years⁶⁵¹

⁶⁵⁰ Granted, these values are not normalized in constant dollars, and are for utilized FDI. As such, these figures are more useful for gauging general trends than for exacting precision.

⁶⁵¹ National Bureau of Statistics, Various years.

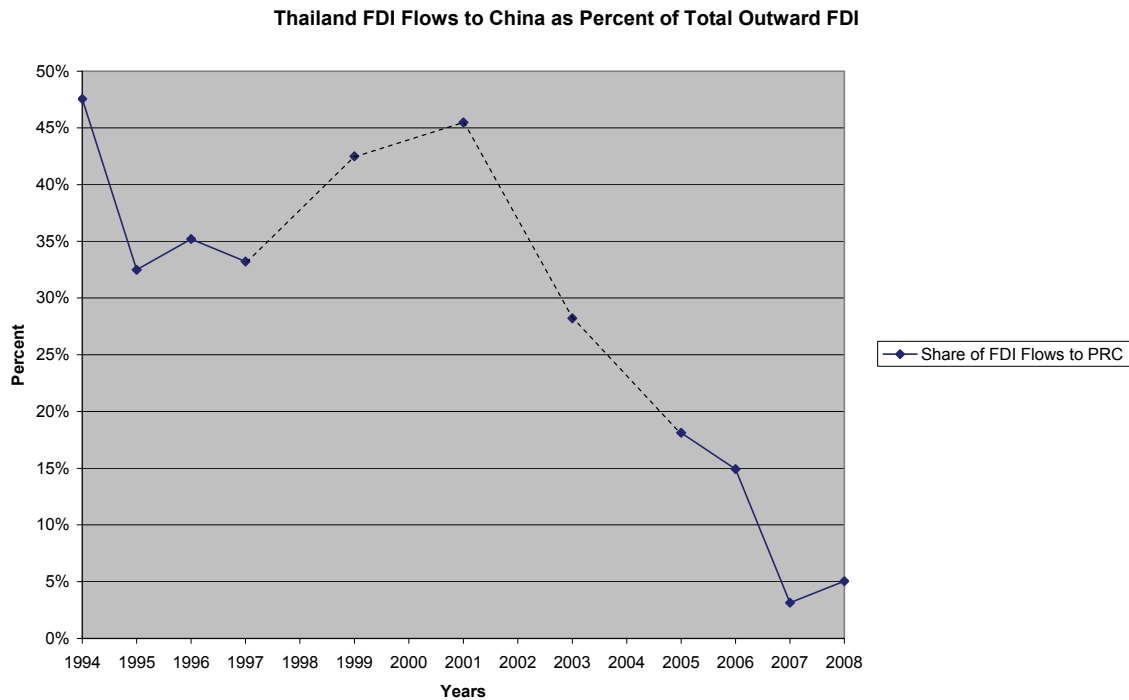


FIGURE 4.7
Source: China National Bureau of Statistics and UNCTAD⁶⁵²

3. Variables Affecting the Thai Response: 1992 – 2001

Regional Events and the Role of the US and China in Shaping Thai Threat Perceptions

Thailand's policy response towards China was shaped by its regional interests. Threats emanating from Bangkok's historic regional rivals in Burma and Indochina colored Thailand's views of China as both an enabler and barrier to its own security. During this period, Thai-Burma relations were highly contentious; and such differences in approach to Burma were one of the main irritants in

⁶⁵² Dotted lines indicate author's interpolations of trends. Due to the nature of FDI, and the manner in which data are recorded, during certain years Thai FDI to China exceeded net Thai FDI flows. For example, in 2000, net FDI flows in Thailand were negative due to amounts of inbound FDI exceeding outbound FDI. For years in which FDI flows from Thailand to China exceeded net Thai FDI, data points were dropped (1998, 2000, 2002, 2004). See Ibid and United Nations Conference on Trade and Development, 2010.

Bangkok's relations with Beijing.⁶⁵³ Two issues contributed to this acrimony: cross border drug related insurgency, and Burma's long-term potential to become a client state of China—a fact that would restrict Thailand's strategic flexibility and limit its ability to engage China.

The primary reason for acrimony with Rangoon revolved around border clashes and illegal trade in drugs—a chronic and enduring problem which has at times been seen as the top external security threat confronting Thailand.⁶⁵⁴ Burma (with Chinese support) supported the United Wa State Army (UWSA), which fought against ethnic Shan rebels in Burmese territory bordering northern Thailand.⁶⁵⁵ Because the UWSA smuggled drugs into Thailand, Bangkok was wary of Burmese and Chinese support for the Wa.⁶⁵⁶

The second reason for Thailand's concern over Burma rested over uncertainty vis-à-vis China's long-term strategic ambitions in that country, and the potential for Thailand's strategic flexibility/options to be limited if Burma were to become a client-state of China. Ironically, it was China's willingness to sell arms—a willingness which benefitted Thailand—which aroused these concerns. During the 1990s, China was more willing to sell Burma military aircraft, aiming to draw Burma into its sphere of influence.⁶⁵⁷ A 1997 bilateral security agreement strengthened military cooperation; China had agreed to train 300 Burmese air force and naval officers in flying skills, naval activities, and coastal signals intelligence.⁶⁵⁸ Thailand's maritime disputes with Burma in the Andaman Sea gave Bangkok's leaders additional reasons to be wary of Beijing's support of Rangoon.⁶⁵⁹

To exert some degree of influence over the drug-caused border incursions, and to hedge against a Burma that could restrict Thailand's range of strategic flexibility, Bangkok has sought to engage Rangoon through both bilateral and plurilateral diplomatic initiatives. Concern with China's

⁶⁵³ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, pp. 143-144.

⁶⁵⁴ Kusuma Snitwongse notes this view. See Snitwongse, 2001, p. 200.

⁶⁵⁵ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 144.

⁶⁵⁶ Snitwongse, 2001, pp. 200-201.

⁶⁵⁷ Selth, 1998, p. 400.

⁶⁵⁸ Far Eastern Economic Review, 1997.

⁶⁵⁹ In December 1998 and January 1999, naval clashes resulted in deaths of both Thai and Burmese soldiers. See Japan Economic Newswire, 1999.

influence in Burma was one reason that Thailand supported its admission into ASEAN.⁶⁶⁰ The festering problem of cross-border incursions spurred Thailand, a founding member of ASEAN, to push for altering one of ASEAN's principles of non-interference in other members' internal affairs. Specifically, Thailand was seeking the imprimatur of ASEAN norms as it sought to exert pressure on Burma.⁶⁶¹ The logic of enmeshing Burma and Thailand's other neighbors into plurilateral organizations extended to other efforts, such as Thailand's support for the creation of the Greater Mekong Subregion (GMS) in 1992 to engage other powers in the region and enmesh them in a web of influence.⁶⁶²

Thailand's security interests in Indochina, on its eastern flank, also shaped its policy stances towards China. After Vietnam's withdrawal from Cambodia and the Cambodian peace agreement of 1991, Thailand no longer felt a strategic threat from Vietnam. Both Vietnam and Laos signed the ASEAN Treaty of Amity and Cooperation in July 1992, easing tensions with Thailand and ASEAN members.⁶⁶³ However, localized disputes and sporadic border clashes had the potential to escalate. After political dissidents from Thailand raided a Lao border checkpoint (on the Lao-Thai border) in July 2000, Laos began to turn closer towards Vietnam and China.⁶⁶⁴ While these border events did not pose a serious security threat to Bangkok, they did serve to enable a tradition of maintaining relatively equidistant ties with both Beijing and Washington in an effort to help Thailand meet its regional security needs.

The Role of China and the US in Cultivating Thailand's policies towards China

Perhaps no other factor loomed larger in affecting Thailand's response to China than China's own policies towards Thailand. Leveraging previously established ties between Chinese and Thai military

⁶⁶⁰ Snitwongse, 2001, p. 204.

⁶⁶¹ This occurred in 1998. Chambers, 2004, p. 463.

⁶⁶² Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 144.

⁶⁶³ At that time, Vietnam and Laos were not ASEAN member states. Vietnam joined in 1995, and Laos in 1997.

⁶⁶⁴ Note that Laos had economic reasons for drawing itself nearer to China and Vietnam, as by 2000, China's and Vietnam's economies were growing rapidly, whereas Thailand's was still recovering from the Asian Financial crisis. For the view that Laos turned closer to China and Vietnam, see Snitwongse, 2001, p. 196.

elites, Beijing was an active party in attempting to woo Thailand to continue relying on its military equipment.⁶⁶⁵ In 1996, China offered \$3 billion in military assistance.⁶⁶⁶ As part of its effort to market its arms, the PRC offered Thailand free spare parts for T-59 tanks, and APC-85 armored personnel carriers, during Thai Army Commander in Chief Chettha Thanajaro's visit (in 1998) to launch a twelve year cooperation program.⁶⁶⁷ Although Thailand did not have any overlapping territorial claims with China in the South China Sea (unlike the case with other ASEAN nations at the time), Beijing's aggressive tactics surrounding the Spratly Islands did raise concerns among Thai thought leaders and defense officials.⁶⁶⁸

China also provided Thailand with economic development assistance, particularly for Chavalit's Green Isan hydrology project.⁶⁶⁹ China demonstrated its long-term interest in playing a positive role in the region through its diplomatic efforts to cultivate its image as a reliable partner. In 1996, it became a full dialogue partner of ASEAN.⁶⁷⁰

More than any other factor, China's policies in the wake of the 1997 Asian financial crisis deepened perceptions among Thai elite that Beijing could serve as a reliable partner on a level similar to that occupied by Washington. China was the first country to assist Thailand during the Asian financial crisis by contributing US \$1 billion to the IMF bailout fund.⁶⁷¹ Though it was appreciated regionally, China's pledge not to devalue its currency stood in stark contrast with the rhetoric offered by the US. Washington approached Bangkok's crisis with apathy at best, and chiding at worst.⁶⁷² To be sure, while Thai-US relations were strained as a result of the Asian financial crisis, both parties did not abandon one another. Bangkok needed US assistance, so from a functional perspective, there were real accomplishments in bilateral ties. For example, when Thailand was unable to pay for F-18

⁶⁶⁵ China was active in cultivating Southeast Asian nations, but seemed to make a particular effort to woo Thai Defense Minister Chavalit Yongchaiyudh and Thai military officials. See East, 2001.

⁶⁶⁶ Khumrunroj, 2001.

⁶⁶⁷ Bangkok Post, 1998.

⁶⁶⁸ The Nikkei Weekly, 1995. In the late 1990s, the Thai Defense Ministry commissioned a committee to examine the regional security situation, and concluded that "uncertainties" in the region remained high, with three factors that need to be carefully monitored: China's military policy, border issues with neighbors, and economic crisis in region (Srivalo, 1999).

⁶⁶⁹ Khumrunroj, 2001. For more on the Green Isaan project, see Molle and Floch, 2008.

⁶⁷⁰ Kanchanabut, 1999.

⁶⁷¹ Snitwongse, 2001, p. 202.

⁶⁷² For a good report of generally negative perceptions of the US response, see Vatikiotis, 1997.

aircraft that it had committed to purchase, the Clinton administration freed Bangkok from its contractual obligation by waiving a heavy cancellation fee.⁶⁷³ However, such flexibility was counterbalanced by the US opposition to the candidacy of Supachai Panitchpakdi—Thai Deputy Prime Minister—for the position of WTO Director General.⁶⁷⁴

Domestic Factors Shaping Thailand's Response to China

Leadership and Bureaucratic Landscape, Elite Conceptions of Security

To better understand the interplay of domestic and external forces shaping Thailand's response to China, one must first examine the evolving domestic polity serving as part of the fabric upon which the response is painted. During the 1991 – 2001 time frame, Thailand transitioned from a government dominated by a military presence to one dominated by business/civilian interests in the 1980s. After the February 1991 coup which overthrew the Chatichai Choonhavan (himself a former army commander) government, the National Peace Keeping Council that seized power at first commanded broad-based support. However, the military was discredited after its crackdown on anti-government protests in May 1992 (Black May). The National Assembly passed laws which stipulated that only elected members of parliament could become prime minister—preventing the military from circumventing the electoral process.⁶⁷⁵ Accordingly, the parliament and cabinet became demilitarized, and businessmen became more dominant, during the 1990s.⁶⁷⁶ In the face of such shifting undercurrents, the military was forced to justify its own existence by recognizing external threats. And the 1994 Defense White paper served as the military's effort to justify its existence given the new civilian environment.⁶⁷⁷

Despite the civilianization of government, elite conceptions of security remained relatively static. Thailand's Seventh and Eight National Economic and Social Development Plans espoused the importance of maintaining rapid and evenly distributed economic growth to strengthen the nation.

⁶⁷³ Jane's Information Group, 1998d.

⁶⁷⁴ Snitwongse, 2001, p. 206.

⁶⁷⁵ Wattanayagorn, 1998, p. 429.

⁶⁷⁶ Phongpaichit and Baker, 2002, p. 413.

⁶⁷⁷ McCargo, 2002, p. 52.

Thai elites understood that the country was beginning to fall behind in terms of technological prowess, and so both the Seventh and Eighth Plans emphasized the importance of promoting technology transfer from abroad, developing science and technology expertise, and strengthening basic research and development capabilities.⁶⁷⁸

The government made an earnest effort to bolster the technological foundations of economic growth through various initiatives and agencies. The National Science and Technology Development Agency (NSTDA) was set up in 1991 "to sponsor and conduct applied research in electronics, biotechnology and materials."⁶⁷⁹ Thai elites aimed to increase research and development (R&D) expenditures through the Thai Research Fund, and the Board of Investment (BOI) initiated programs to link and upgrade local suppliers so that they could be part of larger production chains.⁶⁸⁰

⁶⁷⁸ Thai leaders recognized that export boom of the 1980s was not well integrated into the local economy, and that local producers were not linked with exporters and learning important technical skills and expertise. By the mid-1990s, Thailand had "lost its comparative advantage in labor-intensive manufactured goods after only a decade." This was due to Thailand's weak engineering base, in that it could not absorb new technologies (Doner, 2009, p. 35).

The Seventh National Economic and Social Development Plan embraced the notion that science and technology could increase national economic and social development. It notes: "The development of science and technology will stress the application of modern science and technology to raise productivity in agricultural and industrial sectors. Furthermore, it is equally important to intensify production and development of science and technology manpower, together with promotion of research and development in technology in both public and private sectors to increase production efficiency and promote self-reliance in technological development." (National Economic and Social Development Board, 1992, p. 26). The Seventh Plan also aimed to increase the proportion of engineers from 9.8 per 10,000 to 14.9 per 10,000 population, and increase budget for R&D to 0.75% of GDP by 1996 (National Economic and Social Development Board, 1992, p. 58).

The Eighth National Economic and Social Development Plan stressed the importance of even development across Thailand's various regions. Pertaining to science and technology, the Plan cites the need to "upgrade capability in science and industrial technology through: increasing efficiency in the adoption and adaptation of production technology; providing investment promotion and both tax and financial incentives for developing and improving production technology; creating information systems and encouraging dissemination of information about progress in production technology between various groups of producers; and stimulating transfer of technology to small and medium scale industries" (National Economic and Social Development Board, 1997, p. 88). The Eighth Plan also stressed technology development and the need to increase technology transfer and efficiency in research and technology development (National Economic and Social Development Board, 1997, p. 94).

⁶⁷⁹ Felker and Jomo, 2003, p. 90.

⁶⁸⁰ The BOI founded the BOI Unit for Industrial Linkage Development, National Supplier Development Program in 1994, and the Master Plan for the Development of Supporting Industries (in conjunction with the Japan International Cooperation Agency). See Doner, 2009, pp. 120-121.

The automobile sector held the special status of a protected industry deserving special attention, and during the first half of the 1990s, Thai leaders attempted to reform it and increase its efficiency.⁶⁸¹ Launched by the (second) Chuan government after the onslaught of the Asian Financial Crisis, the Industrial Restructuring Program (IRP) aimed to upgrade industry sectors and increase competitiveness of industry.⁶⁸² Some steps taken by the Thai government during the 1990s were similar to fiscal liberalization measures underway in Japan and Korea, and could be seen as steps to move away from the strict capital controls of an Asian developmental state. For example, the Bangkok International Banking Facility (BIBF) was set up in 1993 in part to handle foreign exchange transactions that were previously tightly controlled.⁶⁸³

Despite the civilianization of government, previously established patterns of interaction and consultation among the political elite, military and business held sway. Former military officers still held influence in Thai politics.⁶⁸⁴ General Chavalit Yongchaiyudh, Thailand's prime minister from 1996 to 1997, is just one example. However, the influence of the military in this context lies not strictly in how security policy is shaped, but also in how it contributed to foreign economic policy and the perpetuation of linkages between government and business.⁶⁸⁵ Chavalit's family-based connections with businesses, such as logging firms, led his government to institute policies which benefitted his family's and friend's businesses, or those sectors in which his associates operated.⁶⁸⁶ Chavalit also negotiated with the Cambodian government to grant concessions to 18 Thai logging companies.⁶⁸⁷ Due to his previous tenure as a military officer, Chavalit's history of close ties with the

⁶⁸¹ Ibid, p. 245.

⁶⁸² While the IRP and other initiatives to stimulate technologically driven industrial development failed due to lack of strong follow-up or serious funding, they nonetheless point to the ideational bent of elites. Token funding of projects was exemplified by the fact that the Science Ministry supported "only thirty projects during 1984-1994" (Felker, 2003, p. 154). Even after these reform measures, the level of R&D per capita remained under 0.2% of GDP (Doner, 2009, p. 41). For more on why the IRP and other technology policies failed, see: Doner, 2009, p. 129 and Lauridsen, 2002.

⁶⁸³ Doner, 2009, p. 41.

⁶⁸⁴ For an example of how the Thai military dabbled in business, see Vatikiotis, 1996b.

⁶⁸⁵ Arguably, the Thai military did not have a history of strong preparation and ethos of defending the nation from foreign invasion. Rather, the military took on qualities of a rent-seeking organization which, not to dismiss its warfighting mission and true capabilities, had as its primary (unstated) purpose that of being another branch of the bureaucracy seeking to obtain monetary benefits for its members.

⁶⁸⁶ General Chavalit had previously visited Burma to gain logging concessions for Thai companies. See Snitwongse, 2001, p. 198.

⁶⁸⁷ Vatikiotis, 1996a.

Chinese military affected the timbre and general direction of Thailand's relations with China during this time. Bangkok's foreign policy was further influenced by former prime minister Chatichai, who had amplified the economic aspects of the Kingdom's overall foreign policy calculus.⁶⁸⁸

Interaction of Political Elite

Together with powerful and well-connected business interests, Thai elites' penchant for advancing economic development and security interacted in the policy making arena. Business interests exerted themselves through politicians of both military and non-military backgrounds. Several examples can be seen. During the 1990s, there appeared to be more continuity than change in money politics, with "new money" entrepreneurs—such as Pairot Piempongsarn, Song Vacharasrirot, or Thaksin Sinawatra—developing linkages with the political establishment. Some of these "new money" entrepreneurs actually took part in, or supported, the movement which unseated the coup regime in 1992. An *ad hoc* coalition of young businessmen and politicians, "Group 16," was formed for the sole purpose of leveraging political connections for business development.⁶⁸⁹

An example of the consequences of such an interaction can be seen in how the Chuan government implemented land reforms to redistribute national wealth, but wound up distributing much of that land to wealthy businesspersons and those that had close ties with the democratic party from which Chuan hailed.⁶⁹⁰ The often intimate linkages between the Thai banking sector and political elites meant that policy decisions—including foreign policy—were captured by domestic financial interests and requirements. Prior to the 1997 Asian Financial crisis, the Thai banking system was domestically controlled and dominated by a small number of families.⁶⁹¹ The vulnerability of the Thai banking system to both internal and external stressors meant that external events could have domestic political

⁶⁸⁸ During this time, former prime minister Chatichai was in charge of the foreign affairs portfolio as a senior minister in Chavalit's coalition (Ibid).

⁶⁸⁹ Pathmanand, 2001, p. 30.

⁶⁹⁰ By 1994, the government had distributed about 11.5 million rai (1 acre = 2.5 rai) of land. However, there were reports of favoritism in the distribution process (Snitwongse, 1995, p. 198).

⁶⁹¹ Dixon, 2004, p. 52.

ramifications, as in the case of the 1997 Asian Financial crisis forcing the Chavalit government to resign.⁶⁹²

While the 1997 Asian Financial Crisis accelerated domestic political changes, business interests still retained significant voice in the Thai policymaking scene. Despite the political changes which transpired—1995 and 1997 revisions to the constitution—business interests were able to retain their voice.⁶⁹³ The second Chuan government attempted to institute reforms to reduce the likelihood of corruption, and liberalized the economy according to IMF mandates.⁶⁹⁴ Nonetheless, even after these reforms, the banking sector was still favored by the government, having close ties with the Ministry of Finance and the Thai corporate structure. And while Thailand progressively opened its economy to foreign investment between the end of 1998 and March 2002, many sectors remained closed to foreign investment.⁶⁹⁵

ASSESSING THAILAND'S RESPONSE TO CHINA AGAINST STRUCTURAL REALISM: 1992—2001

For the years 1992-2001, do explanations grounded in structural realism offer a convincing explanation of Thailand's policy stances towards China? This section reviews material in the above paragraphs against the predictions of structural realism, and concludes that overall, structural realism does fairly well at explaining Thailand's response to China.

⁶⁹² Some Group 16 members were involved in manipulating the Bangkok Bank of Commerce, “whose crash in 1996 anticipated the onset of the economic crisis in 1997” (Pathmanand, 2001, p. 30).

⁶⁹³ Discontent with the Chavalit government in the wake of the 1997 Asian Financial crisis was defused through constitutional reform efforts that had already been underway as the financial crisis began. These reforms were designed to strengthen the position of the prime minister and address problems of economic mismanagement. The new constitution promulgated in 1997, the 16th since the end of absolute monarchy in 1932, led to administrative and fiscal decentralization of large urban centers such as Chiang Mai and Phuket. Some note that politically, the new constitution gave birth to a more decisive political system with fewer parties, but more stability among those which survived (Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 125).

⁶⁹⁴ For a description of efforts, see Pongsudhirak, 2004.

⁶⁹⁵ Dixon, 2004, p. 47.

According to realist principles, external security threats serve as the strongest motivator of state behavior. Applied to the case of Thailand's policy stances towards China, Bangkok would be expected to balance, or align away from, Beijing if it posed a threat. Similarly, Thailand would be expected to align away from China if there were a high degree of conflict between the two states. On threats that China could help mitigate, Thailand would also be expected to solicit China's assistance.

During this period, is there evidence to suggest that China was a threat to Thailand? Were there points of conflict between the two powers? In both domains, China proved to be a benign power, whose threats to Thailand were at most indirect. The threats which confronted Thailand during this time came from the less powerful, but more proximal states in the region—Burma and Malaysia. China's support of the Burmese junta and the United Wa State Army was a major irritant in Sino-Thai relations, and China's increasing foothold in Burma, Cambodia and Laos could reduce Thailand's future strategic flexibility in the region. Thailand did not have overlapping territorial disputes with China in the South China Sea, but China's heavy-handed behavior vis-à-vis its claims in the South China Sea against those of other ASEAN member states posed a risk to Thailand's unencumbered access to its sea lanes of communications (SLOCs).

China was able to help Thailand with mitigating some of its security threats. Beijing demonstrated its goodwill by offering generous terms for sales of military weapons, development aid, and financial support during the 1997 Asian financial crisis which so heavily devastated Thailand.

Thailand's diplomatic and security policies towards China seem well, if not definitively, explained by structural realism. Despite the military modernization efforts of the 1990s, there is no motivating threat from China to justify such acquisitions, nor is there evidence that such actions were designed to counter any potential threat from China. Instead, Thailand engaged China on multiple diplomatic fronts, signing numerous bilateral cooperation agreements, and becoming the first country in ASEAN to sign a joint statement with China. As a member of ASEAN, Thailand also engaged China through the founding of the ASEAN Regional Forum in 1994. That Bangkok acted in its own interests by engaging a benign Beijing is certainly consistent with realist thought.

Thailand's economic policy response to China is also consistent with realist logic. Under realist though, one would expect that if China had posed a threat to Thailand, the latter would have embarked on efforts to restrict economic intercourse with the former. Given that China did not threaten Thailand, and that there was a relatively low level of conflict between the two, a structural realist might expect Bangkok to engage in relatively unfettered economic activity with Beijing. Indeed, the Thai government has sanctioned extensive economic intercourse and signed trade agreements with China during this period. Bangkok facilitated trade and investment with Beijing through loan guarantees (backed by the Thai EXIM Bank) and other incentives.

How can Thailand's continued engagement of its alliance partner, the US, be viewed under realism? Thailand's continued welcoming of the US during this period reflected Thai elite thinking that Washington was still the partner of choice. In spite of any challenges in bilateral ties with the US, Thailand's response to China this period must be assessed against its record of ties with the US. If anything, military cooperation with Washington intensified this period: the annual Cobra Gold exercises held with the US and other partners, and hosted by Thailand, continued unabated. Thailand's military acquisitions, which rely heavily on US systems, are another benefit of its alignment with the US, and consistent with structural realist thinking.

Thailand's active political and economic engagement of China in parallel with its alliance with the US during this period is consistent with realist logic. Through its strategic hedging with two major powers, Bangkok was able to maximize its degree of flexibility and security. By not neglecting its alliance with the US, Thailand minimized any risks to its security given China's increasing foothold in Burma. And consistent with realist principles, Thailand also sought to diffuse its security risks through multilateral groupings. Concern over China's influence in Burma was one reason that Thailand pushed for Burma's admission into ASEAN—with the hope that ASEAN membership would prevent China's influence from growing too large in Burma.

On balance, Thailand's strategic views of China appear to weigh economic interests on equal, or perhaps heavier, terms than its political and security interests. During this period, China became the largest destination for Thai FDI. While structural realism is not geared towards explaining such

behavior, the fact that China did not pose a distinct threat to Thailand means that Bangkok's policy choices do not run counter to the general spirit of realist thinking.

ASSESSING THAILAND'S RESPONSE TO CHINA AGAINST DOMESTIC GRAND STRATEGY THEORY: 1992—2001

The domestic grand strategy theory purports to explain Thailand's behavior towards China based on conceptions of security which are broader in scope than that under structural realism. Based on variation in state type, the more a state approaches the Asian developmental state ideal type, the more it is expected to subsume military/territorial security interests in favor of economic interests *if* the Asian state is economically strong relative to China. And the greater its developmental state characteristics, the greater its tendency to enmesh itself economically with China. Two questions then must be asked: What type of state was Thailand during this period? What was Thailand's economic strength relative to China?

During the 1992-2001 period, Thailand did not fall neatly into either the pure Asian developmental or laissez-faire ideal type. Thailand was transitioning from a developmental state to one that was more laissez-faire. To be sure, Thailand was still an Asian developmental state—just less so of one than it had been during the 1980s. In spite of the frequent leadership transitions, Thai elites still embraced economic growth and development as a means of stability. Economic development plans, such as the Seventh and Eighth National Economic and Social Development Plans or the Industrial Restructuring Program (IRP) implemented after the 1997 financial crisis, espoused growth as a means to stability, and attempted to bolster Thailand's technological and scientific expertise. Structurally, close and collusive ties among the military elite, political elite, and business leaders were similar to previous patterns of policymaking in the 1980s—and one hallmark of an Asian developmental state structure. Bangkok liberalized its economy after the 1997 financial crisis through opening the country to foreign direct investment—steps which can be seen as moves away from the Asian developmental state ideal type. However, certain sectors remained closed to foreign investment.

In terms of relative economic strength, Thailand possessed a comfortable lead over China if one considers GDP per capita on a purchasing power parity (PPP) basis. China began to narrow the gap between 1992 and 2001, but by 2001, Thailand's GDP per capita (PPP) was still approximately double that of the PRC. Other surrogate indicators are less clear. China spends a greater percent of its GDP on R&D, and employs more researchers in R&D per million. Thailand's economy is not trade complementary with that of China. These mixed indicators suggest that while Thailand is economically more powerful than China, the lead is not huge.⁶⁹⁶

Given these circumstances, how much of Thailand's response to China does domestic grand strategy theory explain? Given that Thailand possessed most of the attributes of an Asian developmental state, and that Thailand was economically and technologically stronger than China, Thailand would have been expected to assume a greater degree of military risk vis-à-vis China, and to have subsumed security interests in favor of economic ones. This is because Thai elites would have been as sensitive to economic advantage as military ones. Thailand would have also been expected to align towards China in both political/security and economic domains—integrating its production chains and commercial activity with those of China.

Thailand did lean towards China in both political/security and economic domains—as evidenced by numerous diplomatic accords, arms purchases from China, and trade and investment agreements. The government facilitated Thai FDI to China, making China one of the largest destinations for outbound Thai investment. Thailand's dependency on China as a market to absorb its exports also grew during this period.

Domestic grand strategy theory does seem to explain Thailand's political and economic policy stances towards China. In Thailand's strategic calculus, China was apparently not considered as a threat during this period. Bangkok's leaders viewed Beijing as a valuable enabler of its security interests, responding to China's diplomatic overtures and offers of cut-rate weapons sales with eagerness. Thai elites balanced military security objectives against economic ones, viewing China as an enabler of greater economic strength. Given the opportunities for Thailand to strengthen its economy and

⁶⁹⁶ See Appendix, Figures A.1, A.2, and A.3.

develop its less prosperous regions, China seemed to be a natural partner. As Bangkok had done in the past with Washington and Tokyo, intensified political and economic ties with Beijing were part of a strategy to strengthen the nation's development.

THAILAND'S RESPONSE TO CHINA: 2001 – 2008

1. Thailand's Political and Security Response to China: 2001 – 2008

Thailand's security and diplomatic engagement of China intensified after the election of Thaksin Shinawatra in February 2001. This re-alignment was grounded in part by Thaksin's personal background as a businessman who saw Thailand's future as intertwined with China's economic rise, and in part by his "proactive economic diplomacy" which stressed expanding relations with ASEAN states and countries in East and South Asia.⁶⁹⁷ Thaksin weaved together the strategic and economic strands of his China policy, using this multi-dimensional diplomatic approach to enhance cooperation with China to maximize gains for Thailand and its elites.

Military and Security Policy

There were direct security implications in Thaksin's general tilt towards China, with bilateral military ties and diplomacy generally upgraded. For example, in December 2001, China and Thailand held their first annual defense security consultations.⁶⁹⁸ Bangkok reached out to Beijing by inviting PLA officers to observe the long-running Thai-US Cobra Gold military exercises in 2002.⁶⁹⁹ The Thai and Chinese navies held their first joint search and rescue exercises off the coast of Thailand in 2005.⁷⁰⁰

⁶⁹⁷ Shinawatra, 2001.

⁶⁹⁸ State Council Information Office, 2002, Appendix III.

⁶⁹⁹ The Thai-US Cobra Gold exercises began in 1982, and have expanded in recent years to involve other nations as well. The 2002 exercises included active participation from Singapore (The Nation, 2002a).

⁷⁰⁰ State Council Information Office, 2006, Appendix IV. The exercises took place in the area adjacent to the Port of Sattahip, Thailand, on Dec 13, 2005.

The trend of progressively upgraded military ties with China continued even after the fall of Thaksin's government. After the 2006 military coup which ousted Thaksin led to suspension of US military assistance, coup leader Sonthi Boonvaratglin visited a welcoming Beijing leadership, and secured a large military aid package and an invitation to send Thai army special units to China for advanced training.⁷⁰¹ The two countries conducted joint counter-terrorism training involving both nations' special operations forces in Guangzhou and Chiang Mai in July 2007 and July 2008, respectively.⁷⁰² As of early 2010, there were plans to expand bilateral military exercises to beyond involving only the two armies, with plans to hold a joint marines exercise sometime in 2010.⁷⁰³

Procurements and Internal Balancing

Though Thailand's military modernization was not necessarily directed towards China, I describe them below for the 2001-2008 time period because acquisitions and qualitative improvements are indicative of Thai strategic outlook and security perceptions, and because such military buildups could be used against regional threats.

Military procurements began to pick-up once again as Thailand's economy recovered from the financial crisis. In 2002, Thailand signed a contract to procure two offshore patrol vessels from the PRC; in 2004, Thailand entered into a bartering agreement with China by exchanging lychees for Chinese tanks (though the deal was later cancelled).⁷⁰⁴ Thailand's Agriculture and Cooperatives Ministry signed an unusual barter agreement with China to exchange 100,000 tons of longan fruit for 96 APCs, with first deliveries scheduled for late 2006.⁷⁰⁵

Bangkok's maritime power ambitions were not exactly matched by its capabilities. Despite the fact that its aircraft carrier, acquired in 1997 from Spain, languished because of manning and

⁷⁰¹ Asia Pulse, 2007. The military aid package was reported to be as large as \$49 million (Chongkittavorn, 2007).

⁷⁰² State Council Information Office, 2008, Appendix II. The exercises were known as "Strike 2007" and "Strike 2008." See also Kheunkaew and Ashayagachat, 2008.

⁷⁰³ Japan Economic Newswire, 2010.

⁷⁰⁴ Murphy, 2005.

⁷⁰⁵ Jane's Information Group, 2006a.

maintenance problems, military elites embarked on an ambitious “mega acquisition” plan for modernization between 2006 and 2014. This included acquisitions of submarines, and landing platform dock (LPD) ships with amphibious capabilities and power projection potential.⁷⁰⁶ As of 2009, there were reports that Thailand was considering either two Chinese surplus submarines, or used Type 209 submarines from South Korea, in response to Malaysia’s recent acquisition of Scorpene-class boats.⁷⁰⁷

Airpower modernization strengthened Thailand’s potential to match the air forces of neighboring powers. In October 2007, Thailand approved the purchase of 12 Saab Gripens (to replace F-5s), and two Saab Erieye AEW aircraft.⁷⁰⁸ The first batch of six Gripens are scheduled to enter service in 2011, at the Surat Thani airbase in southern Thailand.⁷⁰⁹ Yet despite this advancements, plans for future capabilities improvements were dominated by ground force and land warfare requirements.⁷¹⁰ And on balance, Thai military expenditures as a share of GDP has been on the decline during much of the 2001-2008 period.

Politics and Diplomacy

Paralleling Thailand’s intensified military and security diplomacy with China was closer diplomatic and political support for China’s goals. Shortly after his election as prime minister, Thaksin paid a state visit to China in August 2001, and signed a Joint Communiqué to foster closer economic and political cooperation.⁷¹¹ To demonstrate Thailand’s commitment to working with China, Thaksin also supported China’s strategic preferences concerning regional architecture and multilateral organizations. For example, as part of Thaksin’s plans to expand Thailand’s role as an influential

⁷⁰⁶ Jane’s Information Group, 2010a.

⁷⁰⁷ I thank Eric Heginbotham for indicating that the Type 209 submarines from Korea are originally from Germany. Jane’s Information Group, 2009f.

⁷⁰⁸ Jane’s Information Group, 2009e.

⁷⁰⁹ Jane’s Information Group, 2010b.

⁷¹⁰ For a summary of Thailand’s “Mega-Project” for Defence Procurement, see Parameswaran, 2007, pp. 78-79. Ground based requirements did seem to dominate procurement plans. For this viewpoint, see also Medina, 2008.

⁷¹¹ Ministry of Foreign Affairs of the People’s Republic of China, 2001.

regional player, he founded the Asian Cooperation Dialogue (ACD) in 2002.⁷¹² Thaksin also supported China's approach to the East Asia Summit during debate over its membership criteria, expressing a preference for keeping it as a club for Asians—and hence excluding the US.⁷¹³ During Thaksin's premiership, Thailand was especially sensitive to avoid ruffling Chinese feathers over the activities of the Falun Gong, and yielded to Chinese pressure by restricting the activities of this religious sect.⁷¹⁴ Thailand was also very solicitous of Chinese sensitivities regarding the visits of Taiwanese officials to Thailand, restricting even low-level visits of parliamentary officials from Taiwan.⁷¹⁵

The deepening of Thailand's political and security enmeshment of China was not just in mere rhetorical terms, but such engagement must be viewed in the context of Thailand's quest for security, and its enhanced diplomatic and security ties with the US. As will be described in more detail below, during the years 2001-2008, Thailand did not have to sacrifice its ties with the US when it enhanced relations with China.

2. Thailand's Economic Response to China: 2001 – 2008

Complementing Thailand's security and diplomatic engagement of China was an enhanced and more interwoven bilateral economic relationship during and after the Thaksin years. Both Bangkok and Beijing were responsible for intensified ties, though more of the motivating force came from Thai elites, many of whom saw the economic rise of China as a tremendous opportunity.⁷¹⁶

⁷¹² While the ACD was designed to boost Thailand's position as a player in regional multilateralism, the inclusion of China in the ACD could be interpreted as a way of undermining the role of ASEAN, and organization which, ironically, Thailand helped to found and in which it was a major player. The founding members of the ACD included all ASEAN states. Other founding members, in addition to China, included South Korea, Japan, India, Bangladesh, Bahrain, Pakistan and Qatar. Because its membership did overlap with ASEAN, Thaksin's actions could be seen as undermining ASEAN.

⁷¹³ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 142.

⁷¹⁴ The PRC government views the Falun Gong as a threat to its national security. Storey, 2006.

⁷¹⁵ The Nation, 2003.

⁷¹⁶ Murphy, 2010, p. 14.

Thailand and China signed a bilateral free trade agreement (FTA) in 2003, which led to a surge in bilateral trade. Between 2003 and 2008, imports from China (including Hong Kong) increased from over \$7 billion to almost \$22 billion. During the same period, exports to China more than doubled, from \$10 billion in 2003 to almost \$26 billion in 2008.⁷¹⁷ While overall trade dependency on China had already been increasing prior to the Thaksin era, Thailand's trade with China as a portion of total international trade grew even more rapidly between 2001 and 2007, rising from 8.4% to over 14.1% in 2007.⁷¹⁸ Between 2001 and 2008, the value of Thailand's exports to China grew by over 300%.⁷¹⁹

Exports of value-added technology products to China increased significantly between 2001 and 2008. During this period, Thailand's exports of semiconductors and integrated circuits (IC), products which are part of the basket of goods Thai elites (and economists) tend to view as economically important to domestic growth, doubled from \$3.5 billion in 2001 to over \$7 billion in 2008.⁷²⁰ Of these exports, Thailand's apparent trade reliance on China increased more rapidly than with other partners; exports of semiconductors to China (including Hong Kong) as a share of total exports increased from 11.3% in 2001 to 29.2% in 2008.⁷²¹ Some of this increase came from an adjustment in exports of semiconductors to the US as a share of world totals, which decreased from 21% in 2001 to 11% in 2008 (See Figure 4.8).

⁷¹⁷ Author's calculations based on World Development Indicators. See The World Bank, Various Years.

⁷¹⁸ Author's calculations based on World Development Indicators. See Ibid.

⁷¹⁹ Author's calculations based on UN COMTRADE database. Exports to China include Hong Kong (United Nations Statistics Division, various years).

⁷²⁰ Author's calculations based on UN COMTRADE database, various years. Integrated circuits (also referred to as semiconductors) are classified under the Harmonized System (HS) Code 8542. See Ibid. Developmental economists tend to view export of high technology products as more beneficial to local economies than export of low-value added products (such as agricultural products) because such industries generate a host of indigenous producers of intermediate and capital goods. See Doner, 2009, p. 9.

⁷²¹ Author's calculations based on UN COMTRADE database, various years. Integrated circuits (also referred to as semiconductors) are classified under the Harmonized System (HS) Code 8542. See United Nations Statistics Division, various years.

Thailand: Exports of Semiconductors (HS Code 8542) to States as Share of World Totals

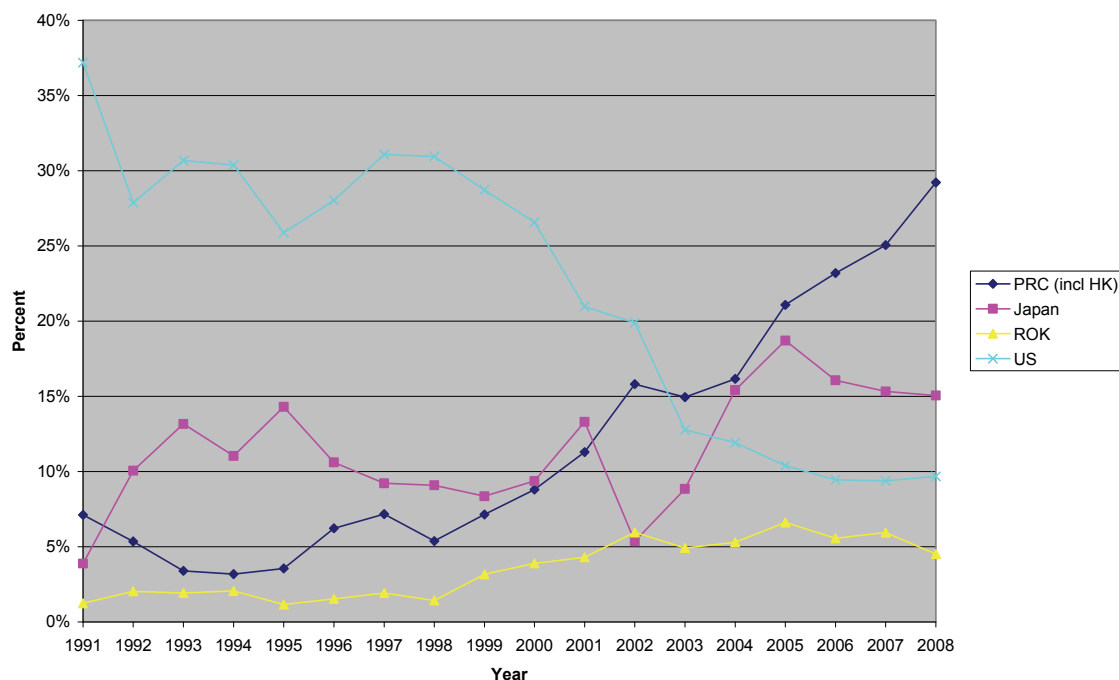


FIGURE 4.8
Source: UN Comtrade Database⁷²²

Rising trade dependence does not necessarily indicate a linearly-correlated, increasing economic and political dependence on China. While Thai businessmen, politicians and the populace were certainly beneficiaries of exports, the increasing flows of *manufactured and technological* goods were driven mostly by Japanese firms.⁷²³ Japan has consistently been one of largest investors in Thailand, and much of the electronic equipment manufactured by Japanese subsidiaries in Thailand is exported not back to Japan, but to China and other markets.⁷²⁴

⁷²² Ibid.

⁷²³ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, pp. 134-135. The automobile parts industries are dominated by Japanese joint-venture firms, and these Japanese firms supply approximately 75% of parts to Japanese auto assemblers in Thailand (Deyo and Doner, 2000, p. 127). During the 1980s and 1990s, Thailand was one of the world's largest exporters of hard disk drives, but manufacturing, parts and services were largely provided by foreign firms (Doner, 2009, p. 9).

⁷²⁴ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, pp. 134-135. An illustration of the dominance of foreign firms in Thailand is seen by the fact that while Thailand has no indigenous automobile industry of its own, it is a major exporter of autos. Medeiros et. al. write that at one point in time during the 2000s, Thailand was the 14-largest producer of automobiles. See Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 135.

In an effort to recover from Thailand's economic crisis of 1997-1998, Thaksin continued previous policies of welcoming FDI from abroad. In his official visit to China in August 2001, Thaksin encouraged Chinese businesses to invest and relocate manufacturing facilities in Thailand and other ASEAN nations.⁷²⁵ Thailand leveraged its position in negotiating on behalf of ASEAN with China for the ASEAN-China FTA.⁷²⁶ The Sino-Thai FTA of 2003, which included an "early harvest" agreement on agricultural products, was ostensibly motivated by a desire to increase economic growth by piggybacking off China's phenomenal rate of economic growth.⁷²⁷ In response to the global recession of 2008-2009, Thailand actively sought to promote Chinese FDI, with Minister of Industry Charnchai having sought 10 billion baht of FDI from China in 2009.⁷²⁸ Thailand had welcomed incoming FDI as an enabler of economic growth in the 1990s, but Bangkok's leaders adopted this strategy in spades immediately after the 1997 Asian financial crisis. Efforts by Thaksin and his successors to court foreign investment, especially from China, merely accelerated an existing trend. Stocks of inward FDI comprised approximately 29% of Thai GDP in 2001, but increased to over 38% of GDP in 2007.⁷²⁹

While flows of FDI from Beijing to Bangkok have been gaining, FDI flows from Thailand to China during the 2001 – 2008 period fell as a percentage of total outbound FDI (See Figure 4.7). Despite this, China was still a major destination of Thai investment.⁷³⁰ During the 2001 to 2008 period, flows of FDI from Thailand to China far exceeded those of China to Thailand.⁷³¹

⁷²⁵ See Ministry of Foreign Affairs of the People's Republic of China, 2001.

⁷²⁶ *The Nation*, 2002b.

⁷²⁷ According to Medeiros et. al., the early harvest agreement was a Thaksin initiative. It accelerated tariff reductions on 188 agricultural products. It had, however, deleterious results for Thai farmers. See Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, pp. 137-138, and Murphy, 2010, p. 14 and footnote 14.

⁷²⁸ Murphy, 2010, p. 15.

⁷²⁹ United Nations Conference on Trade and Development, 2010.

⁷³⁰ According to a Thai-UN publication, China was Thailand's largest "developing country" investment destination, with a total of US \$359.6 million in 2002 (Ministry of Foreign Affairs of Thailand and Thailand, 2005, p. 38, footnote 4). Note that this figure differs from data reported by the China National Bureau of Statistics, which records FDI from Thailand in 2002 as \$187 million.

⁷³¹ Author's calculations based on data from United Nations Conference on Trade and Development, 2010, and National Bureau of Statistics, Various years.

3. Variables Affecting Thailand's Response—2001-2008

Regional Interests and the Role of the US and China in Shaping Thailand's Strategic Perceptions

As with the previous, 1992 – 2001 era, Thailand's policy response to China was also affected by its interests in maintaining regional stability and prosperity. Soliciting either the active assistance, or tacit support of Thailand's regional security goals from the major powers in China and the US was an important part of Bangkok's strategy. At times, Thailand's regional policy also had the consequences of ameliorating sources of friction with China.⁷³²

In the case of the Burmese threat to order and stability along the Thai border, Thaksin switched gears and implemented an engagement strategy in an attempt to secure the border areas. Thaksin's diplomatic engagement of Burma, which consisted of using both "carrots" and "sticks," had the dual purpose of mitigating the immediate threat of cross-border drug trade and ethnic insurgencies, and the long-term concern of Burma evolving into a Chinese client state.⁷³³

Thaksin's engagement of Burma was characterized by increased economic cooperation and investment in Burma, with projects often resembling Chinese investments there. For example, China has advanced its geostrategic and economic interests in Burma through constructing road and rail links between Yunnan province and Burmese ports in the Bay of Bengal.⁷³⁴ Beijing's interest in developing Rangoon's natural gas reserves served as another rationale for increased investment in augmenting Burma's energy infrastructure.⁷³⁵ Not to be outdone by Chinese plans to construct a pipeline from Burma to China, Thailand announced plans to position itself as an energy transit hub

⁷³² Medeiros et. al. observe that active engagement of Burma launched by Thaksin served to mitigate a source of friction between Thailand and China (Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 145).

⁷³³ The perspective of Thailand's concern over Chinese influence in Burma comes from Ibid, p. 144. However, Medeiros et. al. do not expound upon this viewpoint.

⁷³⁴ Vaughn and Morrison, 2006, pp. 23-24.

⁷³⁵ Perlez, 2004.

through its Energy Land Bridge project, whereby it would link the Andaman Sea with the Gulf of Thailand.⁷³⁶

Thailand's diplomatic engagement of Burma could be seen as a means of embedding the latter in a web of multilateral bodies for Bangkok to maintain some degree of influence and connection with the regime in Rangoon. An example of this strategy was Thaksin's implementation of the multilateral engagement dialogue known as the Bangkok Process, which was part of Thaksin's overall desire to increase Thailand's regional standing.⁷³⁷ The Bangkok Process aimed to facilitate political stability and democratization in Burma by engaging the military junta with an international dialogue, but did not succeed as Rangoon's leaders refused to participate in the second round of talks, which were to be held less than six months after inaugural talks of December 2003.⁷³⁸ Policies designed to maintain Burma within Thailand's sphere of influence were reinforced by domestic economic motivations.⁷³⁹

Thaksin's efforts to facilitate stability and increase Thai influence in Burma did not eliminate the festering problem of cross-border drug flows. Thailand had sought the assistance of both China and the US to address its security threats from the drug trade along its borders.⁷⁴⁰ Initially, Thaksin attempted to address the drug problem by less confrontational means.⁷⁴¹ After announcing his war

⁷³⁶ Vaughn and Morrison, 2006, p. 25.

⁷³⁷ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 144. See also Ganesan, 2004, p. 34. Thaksin's effort to increase Thailand's regional diplomatic standing included outreach to Cambodia, Laos, and India. Right at the beginning of Thaksin's premiership, however, relations between Thailand and Burma over the drug issue were rocky. Lt. General Watthanachai Chaimuenwong (of General Surayud's government) had condemned the Burmese military, closing the border, and mobilizing Thai troops along the border. While Thaksin's Defense Minister, Chavalit, replaced Watthanachai, relations were still rocky. Thaksin worked with US Special Forces to establish Task Force 399. Consisting of special Thai units, they worked against drug dealers in northern Thailand. (Chambers, 2004, p. 464).

⁷³⁸ Also at issue were Burmese concerns over excessive Thai pressure for Burma to make political concessions. See Jagan, 2004.

⁷³⁹ By the spring of 2004, Thailand was Burma's third largest investment partner, with Thai exports generating approximately \$1.26 billion (Chambers, 2004, p. 474). It was also reported that Thaksin's Shin Corp had business interests in Burma, and that the economic payoff to his rapprochement towards Burma was the awarding of a concession for Shin Satellite to install 5,000 radio receiver stations in Burma (The Nation, 2004).

⁷⁴⁰ Charoenpo, 2002. US forces had helped to establish a special forces anti-drug unit, Task Force 399.

⁷⁴¹ In 2002, as part of Thaksin's desire to improve relations with Burma, he had reportedly dissolved Task Force 399, an elite task force of special forces (established with the help of the US) to combat drugs in northern Thailand. Burma had accused Task Force 399 of crossing the border into Burma to attack Wa army forces during a Thai military exercise in May 2002. There was debate as to whether Task Force 399 was completely

on drugs in 2003, Thaksin used unusually harsh diplomatic language, threatening Rangoon that Bangkok would shut down meth labs in Burma if Burma was not capable of doing so itself.⁷⁴²

In conjunction with his efforts to improve ties with Burma through involving regional partners were Thaksin's initiatives to strengthen Thailand's standing via other multilateral organizations. Some, such as the Asian Cooperation Dialogue (ACD), included China. Others were more locally based, such as the Economic Cooperation Strategy (also known as the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS)) which encompassed Burma, Cambodia, and Laos.⁷⁴³

Several assumptions can be made about the motivations behind Thaksin's regional diplomatic efforts. They were certainly motivated by Thaksin's leadership style and desire to increase Thailand's diplomatic profile. Yet many of these organizations were created in the wake of China's own diplomatic outreach into Thailand's surrounding neighbors, suggesting that Thailand was aiming to balance China's influence in continental Southeast Asia.⁷⁴⁴

Other regional concerns overlapped less with China's interests, and coincided with Bangkok's desire to increase linkages with the US. Due to the problem of Muslim insurgents operating in the southern provinces of Thailand (bordering Malaysia), Bangkok had an interest in ameliorating ties with Malaysia. After it was confirmed that Malay/Muslim infiltration had been responsible for bombings in southern Thailand in 2002 and 2003,⁷⁴⁵ Thaksin had more reason to throw his support behind the US war on terror—to obtain additional US assistance in combating Islamic insurgents.

disbanded, or just re-directed to conduct intelligence work. See Nanuam, *Ibid.* Also see Chambers, 2004, p. 474.

⁷⁴² Weatherbee, 2005, pp. 123 and 176.

⁷⁴³ The ACMECS was founded in 2003, and expanded in 2004 to include Vietnam. See Ministry of Foreign Affairs of Thailand, 2010.

⁷⁴⁴ China revealed its intentions in claiming the region as a sphere of influence by inserting itself when a diplomatic dispute between Cambodia and Thailand over historical issues escalated. China summoned Thai and Cambodian ambassadors for mediation, an unprecedented move given that both Thailand and Cambodia could have resolved the dispute through ASEAN mechanisms. The dispute arose in Jan 2003 when a Thai actress allegedly claimed Angkor Wat, an ancient Khmer temple, as belong to Thais (the remark was later proved false). When mobs attacked the Thai embassy and businesses in Cambodia, Thailand sent in military aircraft to evacuate Thai citizens. See Weatherbee, 2005, p. 123-124.

⁷⁴⁵ *Ibid.*, p. 39.

The Role of China and the US in Cultivating Thailand's Policies towards China

Thaksin and subsequent Thai leaders played a role in determining the nation's policy direction towards China, but Beijing's diplomatic engagement of Bangkok played a significant role as well. China's generous economic policies and positive diplomatic engagement of Thailand and ASEAN, of which Thailand is a key member, quelled many concerns about China's growing military might in the region. After Thaksin's election in 2001, China responded to his request for US \$2 billion in financial assistance in May 2001, then signed a "Joint Strategic Cooperation Agreement" with Thailand in August 2001.⁷⁴⁶ In July 2003, Thailand, responsible for negotiating on behalf of ASEAN, signed the ASEAN-China FTA—a preferential trade mechanism initially suggested by Beijing.⁷⁴⁷ As a reassurance to all members of ASEAN, China ratified the Treaty of Amity and Cooperation (TAC) in October 2003, effectively laying to bed many doubts that China's intentions in the region were peaceful.⁷⁴⁸

Even as Thaksin deepened Thailand's strategic relations towards China, he simultaneously cultivated, and even strengthened, ties with the US. Part of this can be seen as a response to Washington's continued support for the Thai government's interests. In July 2001, the US agreed to sell Thailand AMRAAM missiles for F-16 planes, making it first Southeast Asian state to acquire the system.⁷⁴⁹ In the same year, Thailand's intelligence service and the US CIA founded the Counter-Terrorism Intel Center (CTIC).⁷⁵⁰ The US also expressed concern over Thailand's ability to counterbalance military acquisitions by Burma.⁷⁵¹

⁷⁴⁶ Chambers, 2004, p. 464. In the "Joint Strategic Cooperation Agreement," both China and Thailand agreed to accelerate and strengthen economic and political cooperation. See Ministry of Foreign Affairs of the People's Republic of China, 2001.

⁷⁴⁷ Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 137. See also Vatikiotis and Murphy, 2003b.

⁷⁴⁸ At that time, the US had not acceded to ASEAN's Treaty of Amity and Cooperation.

⁷⁴⁹ Chambers, 2004, p. 465.

⁷⁵⁰ Chanlett-Avery, 2005, p. 9.

⁷⁵¹ Around early 2002, Burma purchased 10 MiG-29 fighters from Russia. As a result, the US Senate appropriations committee expressed concern over Thailand's ability to defend itself. See Pathan, 2002.

After the September 11, 2001, terrorist attacks against the US, Thaksin voiced strong support for Washington's global war on terror. In October 2001, Bangkok granted US overflight rights for Operation Enduring Freedom, the right to refuel aircraft at U-Tapao naval airbase, and allowed US ships to visit Thai ports.⁷⁵² Despite the likelihood of displeasure emanating from the restive Islamic population in southern Thailand, and going against the advice of several parliamentarians because of this domestic threat, Thaksin nonetheless pledged full support for the US' global war on terror by sending troops to Afghanistan to participate in the reconstruction phase of Operation Enduring Freedom.⁷⁵³

While Thaksin preferred that Thailand remain neutral in the US' invasion of Iraq, he nonetheless sent troops there to assist in Iraqi reconstruction efforts.⁷⁵⁴ Support extended to permitting US forces to utilize U-Tapao and Sattahib naval bases for logistical support in Operation Enduring Freedom. All this led the US to bestow "major non-NATO ally" status upon Thailand, enabling it to have greater access to US aid and military assistance.⁷⁵⁵

The US temporarily suspended military training and military sales financing assistance to Thailand after the coup which toppled the Thaksin government in September 2006. While such military aid was resumed in February 2008, military assistance never recovered their pre-2006 levels.⁷⁵⁶ However, this did not mean that there was a lack of commitment in both Bangkok and Washington to maintaining security ties. The US' largest annual joint exercise in Asia—Cobra Gold—continues to this day, and both hosts Bangkok and Washington made an effort to ensure that the 2007 exercises were not interrupted because of the change in Thailand's government.⁷⁵⁷

During the lull in US military assistance immediately following Thaksin's ouster, China made inroads into currying favor with Thailand's new leaders. Shortly after the US ban, China stepped in

⁷⁵² Thaksin made efforts to strengthen anti-terrorism capabilities, and in 2002, acquired cargo inspection facilities as part of the US' Container Security Initiative (CSI) (Chambers, 2004, p. 466-467).

⁷⁵³ Chanlett-Avery, 2005, p. 8.

⁷⁵⁴ Thaksin's decision to send troops and support personnel to Iraq was highly controversial. Encountering opposition, he withdrew these troops in Sep 2004. Pinyorat, 2004

⁷⁵⁵ Chanlett-Avery, 2005, p. 8.

⁷⁵⁶ Chanlett-Avery, 2009, Table 1.

⁷⁵⁷ Marukatat, 2007.

and offered \$49 million worth of military assistance.⁷⁵⁸ China also broached the idea of having Thai army special forces train in China.⁷⁵⁹ While the US continued non-military aid to Thailand after the 2006 coup, China countered with significant offers of loans—albeit conditioned on the purchase of Chinese equipment.⁷⁶⁰

National Conditions and Domestic Affairs

Thailand's policy stances towards China occurred in the context of the rapidly changing domestic landscape which transpired after Thaksin's election in 2001. His highly personalized leadership style sidelined the influence of the bureaucracy in foreign affairs, but preserved, and even strengthened, the influence of business in policymaking. Thaksin's successors were less outspoken in their leadership style, but the general structure of domestic government was not significantly altered. Furthermore, during the Thaksin and post-Thaksin era, concepts of economic development and security remained relatively static.

Leadership and Bureaucratic Landscape, Elite Conceptions of Security

The victory of Thaksin's Thai Rak Thai (TRT) government in 2001 ushered in a new era of more decisive, personalized leadership. Thaksin took advantage of the constitutional reforms (of 1997) which empowered political leaders and made them less restrained by bureaucratic power, and exploited his personal wealth to advance his political stature.⁷⁶¹ Yet while the sidelining of the bureaucracy is often a sign of movement away from the structure of an Asian developmental state, Thaksin took an active role in its resurgence.

Thaksin's economic strategy pulled Thailand in the direction of an Asian developmental state along the state type spectrum. Thaksin invoked nationalistic sentiments that echoed some of Sarit's slogans,

⁷⁵⁸ Chongkittavorn, 2007.

⁷⁵⁹ Asia Pulse, 2007.

⁷⁶⁰ The Nation, 2007a.

⁷⁶¹ At the time of his election, Thaksin was one of the wealthiest persons in Thailand, with assets valued at over US \$1 billion. A precise figure is not known, but news reports suggest over US \$1 billion. See Wilson, 2004.

and some have noted that Thaksin's obsession with economic growth and development of rural areas had the classic fingerprints of an Asian developmental state.⁷⁶² Thaksin stressed the importance of even economic growth, to be implemented through the "One Tambon, One Product" strategy, and hinted at indigenous development.⁷⁶³ He embarked on an ambitious effort to re-structure the state, increase efficiency, and increase productivity growth that was grounded in technological advancement.⁷⁶⁴ In classic Asian developmentalist form, one scholar notes that Thaksin was a "capitalist who is willing to use the institutions of the national state to promote internationalist perspectives."⁷⁶⁵

Unlike Japan and Korea, though, Thaksin's policies were less successful at implementing an indigenously driven, technologically-grounded industrial sector, and did not restrict foreign investment. Instead, under Thaksin, inflows of foreign direct investment continued to balloon.⁷⁶⁶ And in reality, differences in viewpoints and lack of good management meant that public-private consultation were not regularized and did not endure,⁷⁶⁷ and that many plans were not successfully executed.⁷⁶⁸

Despite campaigning as a populist and advocate of the impoverished northeastern Thais, Thaksin's election resulted in a fillip for well connected business leaders. His personal style of leadership and quest for economic growth strengthened ties between business and government, linkages which the

⁷⁶² Pasuk and Baker note that Thaksin's policies were not exactly duplicative of the developmentalist policies of Japan, Korea and Taiwan, but that he began to move Thailand in that direction (Phongpaichit and Baker, 2004, p. 102). Capturing Thaksin's spirit of economic growth was a speech he gave in 1997, in which he equated a country with a business: "A company is a country. A country is a company. They are the same" (Phongpaichit and Baker, 2004, p. 101).

⁷⁶³ The "One Tambon, One Product" campaign was geared towards promoting economic growth within each *tambon*, or village. For more on this strategy, see Glassman, 2004, p. 45. On "looking inward," see Phongpaichit and Baker, 2004, p. 121.

⁷⁶⁴ Doner, 2009, p. 131. See also Lauridsen, 2009.

⁷⁶⁵ Glassman, 2004, p. 50.

⁷⁶⁶ See Appendix, Figure A.4.

⁷⁶⁷ See Painter, 2005.

⁷⁶⁸ Doner, 2009, p. 139. One reason for the erratic nature of public-private consultations was that so much of policy direction came from Thaksin's personal intervention.

previous Chuan government had attempted to weaken.⁷⁶⁹ Capital once again cooperated mutually with politicians, but this time often more explicitly, with the lines blurred so that the TRT often functioned as a political arm of powerful business groups.⁷⁷⁰ Part of this process began after the IMF left Thailand in 2000, and the TRT proceeded to focus on economic nationalism and established a “bank friendly” national asset management company.⁷⁷¹ Instead of operating as a typical asset management company does by liquidating assets, the Thailand Asset Management Company was charged with rehabilitating assets to protect banks and their owners that were under pressure to meet their debt obligations.⁷⁷²

The November 2001 Telecommunications Services Act, which restricted foreign investment in the telecommunications sector, was widely seen as a means of protecting Thaksin’s interests in his family corporation, Shin Corp, from foreign competition.⁷⁷³ Other alleged cases indicating the increased seepage of business interests into foreign policy related to linkages between policies towards Burma to drive sales from Shin Satellite.⁷⁷⁴

Thaksin’s self-labeling as a “CEO prime minister” concentrated power in his cabinet, and sidelined the influence of the bureaucracy and National Economic and Social Development Board.⁷⁷⁵ An

⁷⁶⁹ Medeiros et. al. note that after the 1997 Asian financial crisis, politics in Thailand “moved from being a province of the rich to one of the superrich” (Medeiros, Crane, Heginbotham, Levin, Lowell, Rabasa and Seong, 2008, p. 127).

⁷⁷⁰ Pathmanand, 2001, p. 38, and also Dixon, 2004, p. 64, as depicted by Pathmanand. Thaksin accomplished this by carefully wooing the banking and business elite, done in part by holding regular consultations, “write-downs of non-performing loans, award of tenders for major public projects, and sale of state-owned enterprises” (Ganesan, 2004, p. 31).

⁷⁷¹ Dixon, 2004, p. 61.

⁷⁷² Ibid, pp. 61-62. After his election, Thaksin invoked nationalistic sentiments that opposed “Western” financial concepts and IMF imposed conditions. He returned Thailand to a more restrictive, political-capitalistic system. One example: he relaxed the supervisory functions of the Bank of Thailand in 2001 by replacing its director with someone deemed more compliant.

⁷⁷³ Thaksin’s family owned 53% of the Shin Corp, and at that time, much was made of Thaksin’s desire to protect his own interests by restricting foreign ownership in joint ventures to 25%. Some of Shin Corp’s major competitors, such as the CP Group, had agreed to a 49% partnership with the foreign company Orange. (Ibid, p. 63).

⁷⁷⁴ According to reports, Thaksin personally instructed the Thai ExIm Bank to increase its loan to Burma in order to finance Burma’s ability to conclude a deal with Shin Satellite, one of the firms in Thaksin’s business empire. See The Nation, 2007b.

⁷⁷⁵ Phongpaichit and Baker, 2004, pp. 184-185.

imperious leadership style meant that often, policy initiatives, such as the FTA framework agreement with China, were pushed forward without going through proper procedural channels.⁷⁷⁶

The demise of Thaksin in 2006 may have removed a charismatic leadership style, but did not result in tectonic changes in the pattern of domestic policymaking. While there have been four prime ministers since Thaksin, and some, such as Somchai Wongsawat, were either related to Thaksin, or are from his re-named political party.⁷⁷⁷

ASSESSING THAILAND'S RESPONSE TO CHINA AGAINST STRUCTURAL REALISM: 2001 – 2008

In light of the intensification of Thailand's engagement of China after Thaksin's election, do hypotheses grounded in structural realism offer a good explanation of Thailand's policy stances towards China in the Thaksin and post-Thaksin eras? This section reviews material in the above paragraphs against the predictions of structural realism, and concludes that overall, structural realism does fairly well at explaining Thailand's response to China.

According to realist principles, external security threats serve as the strongest motivator of state behavior. Applied to the case of Thailand's policy stances towards China, Bangkok would be expected to balance, or align away from, Beijing if it posed a threat. Similarly, Thailand would be expected to align away from China if there were a high degree of conflict between the two states. If there are other threats that China can help mitigate, Thailand would be expected to enlist China for those efforts.

During this period, is there evidence to suggest that China was a threat to Thailand? Were there points of conflict between the two powers? The threats which confronted Thailand during this period were similar in nature to those in the previous period, coming from the less powerful, but

⁷⁷⁶ The FTA framework with China, signed in October 1, 2003, was done without parliamentary approval. See Limsamarnphun, 2004.

⁷⁷⁷ Somchai Wongsawat, prime minister for three months in 2008, was Thaksin's brother-in-law.

more proximal states in the region—Burma and Malaysia, and from threats to unobstructed sea lanes of communications (SLOCs) in Thailand's periphery. Pertaining to these regional states, China served as both an enabler and detriment to Thailand's security interests. On the positive side, Beijing's support of Burma brought some modicum of economic stability—stability which yielded direct benefits for certain Thai businesses, such as Shin Satellite. But on the negative side, China's support of the military junta in Burma brought extensive economic and energy concessions, enabling Beijing to extend its strategic and military reach through Rangoon into the Andaman Sea—an area of interest to Thailand.

During the 2001-2008 time frame, Thailand's diplomatic and security policies are well, if not definitively, explained by structural realism. China demonstrated its goodwill towards Thailand with generous terms for military sales (agreeing to provide military equipment in exchange for Thai agricultural products) and preferential trade agreements (suggesting the China-ASEAN FTA). Moreover, China acceded to the ASEAN Treaty of Amity and Cooperation in 2003, becoming the first major non-ASEAN member to sign this treaty requiring signatories to resolve disputes in a peaceful manner. While Bangkok was on the one hand wary of Beijing's increasing footprint in Rangoon, and interference in Phnom Penh, such support did not constitute an explicit or immediate threat to Thai sovereignty.

As China's long-term intentions are unknown to Thai elites, Bangkok's actions of engaging Beijing for military and economic support, while hedging against an uncertain future, are explained by structural realism. Thaksin's intensified diplomatic engagement of China is consistent with realist principles in the sense that Bangkok was simply responding to increased military and economic incentives bestowed by Beijing. While China was undergoing a phenomenal military buildup and modernization process in parallel with its rapidly growing economy, increases in Chinese *power* did not translate into a growing security threat to Thailand.

Thailand's economic policy response to China is also consistent with realist thinking. True, realism tends to be less determinate on economic behavior than security or military policy. Under thinking consistent with realism, one would expect that if China had posed a threat to Thailand, the latter would have embarked on efforts to restrict economic activity with the former. Given that China did

not threaten Thailand, and that there was a relatively low level of conflict between the two, a structural realist might expect Bangkok to engage in relatively unfettered economic activity with Beijing. Indeed, Thailand facilitated economic activity with China. During the 2001-2008 period, Thailand's exports to China as a share of world totals increased. Exports of value added technology products to China, such as semiconductors, exploded. Thai leaders also cultivated Chinese investment into Thailand.

How can Thailand's intensified engagement of the US after 2001 be viewed under a structural realist lens? Thaksin's and his successors' continued embrace of the US during this period reflected Thai elite thinking that Washington was still the partner of choice. Military cooperation with Washington intensified this period: the annual Cobra Gold exercises continued, and Thaksin threw his support behind the US' efforts in Afghanistan and Iraq, earning Thailand Major Non-Nato Ally status in 2003. While Thailand's embrace of the US was motivated primarily by soliciting the latter's support for efforts against fundamentalist Islamic insurgents threatening stability in southern Thailand, such actions also had the consequence of keeping Washington's eyes engaged in the region.

In addition to simultaneously cultivating security and diplomatic ties with China and the US, Thailand has also sought to diffuse its security risks through multilateral groupings. Thaksin's founding of various regional organizations, such as the ACMECS or ACD, are examples of efforts to enmesh states such as Burma, Cambodia and Laos into Thailand's sphere of influence and reduce the probability of them embracing policies which may threaten Thailand. Bangkok's regional diplomatic efforts are therefore explained by structural realist predictions as well.

On balance, Thailand's strategic views of China appear to weigh economic interests on equal, or perhaps heavier, terms than its political and security interests. During this period, China became the largest destination for Thai FDI. And Thailand began to actively court FDI from China. While structural realism is not geared towards explaining such behavior, the fact that China did not pose a distinct threat to Thailand means that Bangkok's policy choices do not run counter to the general spirit of realist thinking.

ASSESSING THAILAND'S RESPONSE TO CHINA AGAINST DOMESTIC GRAND STRATEGY THEORY

The domestic grand strategy theory purports to explain Thailand's behavior towards China based on conceptions of security which are broader in scope than that under structural realism. Based on variation in state type, the more a state approaches the Asian developmental state ideal type, the more it is expected to subsume military/territorial security interests in favor of economic interests *if* the Asian state is economically strong. And the greater its developmental state characteristics, the greater its tendency to enmesh itself economically with China. Two questions then must be asked: What type of state was Thailand during this period? What was Thailand's economic strength relative to China?

During the 2001-2008 period, Thailand underwent a slight shift towards the Asian developmental state type. Unlike in the previous period, where Thailand was transitioning from more of a developmental state to one that was more laissez-faire, there was a brief interregnum in this transition during Thaksin's government of 2001-2006. Some of Thaksin's policies and slogans reprised the economic nationalism of the Sarit-era, though none of the actual policies bordered on the protectionist policies of that era. And unlike more "pure" types of Asian developmental states which placed restrictions on inbound flows of FDI, accumulated FDI into Thailand continued to expand as a percentage of GDP. Structurally, Thaksin enhanced the developmental state attributes of close and collusive ties among the political elite, and business leaders. However, Thaksin's policies were not enduring enough to penetrate the bureaucratic processes, and driven a lot by his charisma.

In terms of relative economic strength, Thailand's lead over China in GDP per capita based on purchasing power parity (PPP) began to narrow between 2001 and 2008. Other surrogate indicators are less clear. China spends a greater percent of its GDP on R&D, and employs more researchers in R&D per million. Thailand's economy is not trade complementary with that of China. These mixed indicators suggest that while Thailand is economically more powerful than China, the lead is not huge.⁷⁷⁸

⁷⁷⁸ See Appendix, Figures A.1, A.2 and A.3.

Given these circumstances, how much of Thailand's response to China does domestic grand strategy explain? Given that Thailand possessed most of the attributes of an Asian developmental state, and that Thailand was economically and technologically stronger than China, Thailand would have been expected to assume a greater degree of security risk vis-à-vis China, and to have prioritized economic interests on terms equal to or greater than military/security ones. Thailand would have also been expected to align towards China in both political/security and economic domains. During the Thaksin years, one would also have expected to see an intensification of Thailand's political and economic engagement of China.

Thailand did align towards China in both political/security and economic domains—as evidenced by numerous diplomatic accords, arms purchases from China, and trade and investment agreements. Consistent with domestic grand strategy theory, Thailand engaged China more intensively during the Thaksin years just as it became more of an Asian developmental state. Given the opportunities for Thailand to strengthen its economy—a core principle of the Thaksin government—China served as the natural partner.

SUMMARY ANALYSIS

Since the end of the Cold War, Thailand has gradually enhanced its political, security and economic ties with China. In traditional international relations terminology, Thailand appears to have aligned towards China in both political security and economic policy dimensions. In 1999, Thailand became the first ASEAN nation to sign a joint statement with China on bilateral cooperation. Bilateral ties were intensified further under the Thaksin government, with Thailand enabling closer political and security ties. Economic cooperation has also increased dramatically since the end of the Cold War.

What do the hypotheses of structural realism and domestic grand strategy theory reveal about Thailand's comprehensive engagement of China? The strength of structural realism lies in its ability to parsimoniously capture Thailand's response to China over time. Given that China did not pose an explicit threat to Thailand, and China was politically and economically supportive of Thailand,

Bangkok's ties with Beijing comport with structural realist logic. With the underlying realist assumption that Thailand, as with all states, seek security, Thailand was able to achieve its objectives by cultivating close ties with both China and the US. In light of US insensitivities to Thailand's needs during the Asian financial crisis, it would be expected for Thailand to turn to a welcoming China.

Thailand's response to China in terms of concerns over the latter's influence in Burma and Indochina are also consistent with the predictions of structural realism. By maintaining its alliance ties with the US, it was able to maintain strategic flexibility and continued US support. Structural realism, however, leaves one small puzzle unexplained. Why did Thailand's diplomatic and economic embrace of China intensify during the Thaksin years?

Domestic grand strategy and structural realism both explain Thailand's policy stances towards China, but domestic grand strategy theory offers a more convincing explanation of why Thailand's diplomatic and economic embrace of China intensified under Thaksin. Thaksin campaigned on a platform which advocated technological and economic strength, noting that Thailand would be a stronger country under his "CEO presidency." He altered Thai elites' conception of security, causing elites to view external threats and opportunities through "development" lenses (i.e.: those that prioritized economic strength). This is not to argue that Thailand no longer valued military security, but only to state that Thaksin changed the proportion of economic versus military power desired.

While Thailand's promotion of trade and investment with China does not contradict the predictions of structural realism, this behavior is actively predicted by domestic grand strategy theory. Furthermore, domestic grand strategy theory offers a clearer mechanism of how policies which encourage trade and investment with China were actually formulated—through the domestic configuration of close ties between the political/military elite and businessmen.

CHAPTER 5

CONCLUSIONS

OVERVIEW

The rise of China is one of the most consequential events in contemporary geopolitics. Discussion of possible rivals to challenge America's pre-eminence inevitably centers around China, yet at the same time, China's growth has contributed to economic prosperity in the US and throughout the world. Nowhere has the dual nature of China's emergence been felt greater than in Asia. And no other factor looms larger in the future of the US' influence in Asia than how Asian allies will respond to China.

To predict how Asian states will respond to China, this study has assessed Japan's, Korea's and Thailand's responses to China against the backdrop of two theoretical frameworks—structural realism, and domestic grand strategy theory. Realism hypothesizes that state behavior is motivated by sensitivity to military threats, and is the most commonly invoked framework among analysts and politicians in strategizing about the future of Asia. Domestic grand strategy theory contends that states demand both economic strength and military security, and that states hold strategic preferences for the share of each at any given time.

Japanese, Korean and Thai responses to China since the end of the Cold War defy realist predictions that Asian states would either balance against or bandwagon with a rising China. Contrary to realist predictions, these states' responses have also not been homogenous. Instead, Asian nations have deployed sophisticated and complex strategies combining elements of both military hedging and economic engagement. While some of these states are alarmed by China's military developments, they are simultaneously embracing its economic growth. This empirical evidence supports arguments that Asian states are sensitive to both economic and military factors in responding to China.

Variation in Asian states' preferences for economic advantage versus military strength explain changes in responses to China. Differences in how Japan, Korea and Thailand have responded to China over time are explained not only by changes in China's military threat, but perceptions of such threat as weighed against changing economic priorities. Domestic strategic evolution—changes in political structure and grand strategy—have had an important impact on how Asian nations have, and will, respond to China.

Understanding that Asian nations have different preferences for the ratio of economic versus military strength, and that these preferences are subject to change, bears on US strategic planning in the region. This is because Asian nations are not only factoring in China's behavior when responding to China, but observing and assessing US behavior as well. In Japan, Korea and Thailand, such strategic shifts in the prioritization of economic versus military strength have accompanied the withering of developmental state characteristics.

While previous predictions that China's rise would lead to a reprise of pre-World War I European rivalry have thus far not materialized because many Asian nations prioritized economic strength, the general trend towards increased sensitivity to external military threats among Asian states portends greater military tension. The likelihood of greater intra-Asian rivalry is further increased due to rapidly increasing Chinese offensive military capabilities and aggressive posturing. Though the future may bring greater risks for miscalculation, both the US and China are capable of dampening the trend towards increased prioritization of military strength among Asian elites.

CHAPTER ORGANIZATION

This chapter first reviews the main components of the two analytical frameworks employed—structural realism and domestic grand strategy theory. It then summarizes the utility of each theory in explaining the responses of Asian states to China since the end of the Cold War, and the implications of these theoretical findings for the study of international relations theory. Subsequent sections assess dominant themes and trends characterizing Asian responses to China: the extensive

economic ties that have formed between Asian nations and China, the rise of China's military threat, the evolution in how Asian states perceive and balance economic versus military threats, the role of domestic political changes, and likely futures in Asian regional dynamics. The chapter closes with policy recommendations.

REVIEW OF REALIST AND DOMESTIC GRAND STRATEGY EXPLANATIONS

Analytic thinking about the future of Asia has primarily relied on the dominant international relations paradigm—realism. Of the numerous schools under the realist paradigmatic umbrella, structural realism (or neorealism) is the most commonly deployed and easily testable because of its parsimonious nature. Preferences are assumed to be uniform across all states, with security from military threats more highly valued than protection from economic ones. Or stated differently, all states view external threats through “military/security” filters.

Extending the logic of realism to the case of Asia, states that face threats from Beijing, or have a high degree of conflict with China over historical or diplomatic matters, would be expected to adopt stronger military and alliance postures to hedge against China. As threat or friction with China increased, the Asian state would also be expected to restrict investment and trade flows with Beijing. Asian states confronting threats for which China could be helpful would naturally be expected to seek China's assistance to mitigate these threats.

The general pattern of post-WWII politics in Asian states offers a rich body of evidence for analytic frameworks that consider domestic factors. The domestic grand strategy theory hypothesizes that state preferences vary across states, and can also evolve cross-temporally within states. State type serves as an aggregate indicator of preferences, with Asian developmental states prioritizing economic and technological strength, and laissez-faire states not emphasizing or even possessing notions of economic security. Asian developmental states do not preclude military security as a goal, but see more tension in their strategic calculus of balancing between competing aims because external threats are filtered through “development” lenses.

As a general rule, Asian developmental states economically stronger than China will tend to tolerate a greater degree of military or security risk than a comparable laissez-faire state would because it will value economic advantage over a military one. Accordingly, these states will also be more willing than laissez-faire states to give more ground in resolving minor disputes or diplomatic conflict so as not to upset economic ties.

SUMMARY OF THEORETICAL FINDINGS

Evidence from Japan's, Korea's and Thailand's response to China supports the theory that Asian states have had to balance two competing aims—economic strength and military security—when formulating policies towards China. At various points in time, the three countries have responded to China in ways that realism would not have predicted. However, to argue that realism does not explain all of Japan's, Korea's and Thailand's responses to China is not to discard external threats as causal factors. Domestic grand strategy theory recognizes that state elites are sensitive to external threats, but that economic considerations can often vie intensely with military ones in determining foreign policy responses to China. The examples below highlight how prioritization of economic advantage accounted for Asian policy responses to China that are not fully explained by realism alone.

Japan

The timing of some Japanese security and political stances towards China would appear to be puzzling and inconsistent with realist predictions, but become clearer when one considers that Japanese elites were balancing economic and military priorities. Prior to the Koizumi era, Japan was an Asian developmental state that frequently restrained military security objectives in exchange for greater economic advantage. Thus, while Japanese reductions in defense spending made *after* the destabilizing 1996 PRC military exercises and missile test firings in the areas around Taiwan and Okinawa do not fit with realist predictions, such actions comport with Japan's strategic preferences at the time.

Japan responded more assertively to China's military threats only after domestic strategic shifts which accompanied its transition towards a *laissez-faire* state. Koizumi dismantled Tokyo's developmental state attributes which had dampened elites' sensitivities to external military threats, ushering in greater military preparations to counter Beijing's military power. Japan's 2005 decision to relocate its most powerful fighters from Honshu to Okinawa (achieved in 2008) is one prime example of more assertive posturing against Chinese threats. Abe Shinzo followed in Koizumi's footsteps and elevated the Japan Defense Agency to full ministry status. Though outside the temporal scope of this study, Japan's announcement at the end of 2010 that its military strategy would be directed towards countering Chinese threats provides further evidence of the strategic shift in preferences brought about by Koizumi.

Although Japan's more assertive military and security stances towards China can be attributed to the latter's increasing military threat, the time lags in Japan's response are better explained by domestic grand strategy theory than by realism.

Korea

As with Japan, some of Korea's security policy responses to China are not well explained by variation in Chinese threat levels; consideration that Korean elites had strategic preferences for balancing economic strength against military security helps to fill the explanatory gap. Shifts in Korea's strategic preferences were not as drastic as those in Japan, but the changes which occurred after leadership transitions still led to palpable differences in responses to China.

Korea's political engagement of China tracks with changes in how it balanced economic and security priorities. President Kim Dae Jung attempted to dismantle some of the domestic political structures which made Korea a developmental state, and ushered in a new era in which greater political and military independence from the US were given higher priority than in the past. Combined with a continued emphasis on economic strength, this shift explains Korea's reluctance to participate in a US-Japan led effort to develop theater missile defense systems in late 1998. Realism would have predicted that Korea, whose security benefited from the US-Japan alliance, to have joined the US-Japan theater missile defense (TMD) effort. However, because Kim Dae Jung prioritized Korea's

policy independence more highly than his predecessors, and viewed China as a strategic partner that would strengthen both the ROK's economic prowess and interests on the Korean Peninsula, Korea was unwilling to offend China by participating.

Elite preferences for greater political and military independence from the US came with the election of President Roh Moo Hyun. While Korea was still an Asian developmental state that continued to emphasize economic and technological strength, its increased desire for independent military and political authority explains the warming of diplomatic ties with China. Seoul's apparent animosity towards Tokyo, though driven in part by domestic politics, also comes into clearer focus when one considers that elites, such as Roh Moo Hyun, were more sensitive to economic threats than military ones. Given that Japan was a fierce trade competitor of Korea, Seoul's sensitivities to Tokyo's economic threat spilled over to augment what were minor territorial disputes over the Dokdo/Takeshima Islands into the perception of Japan as a military/security threat. Under the perspective that Korean elites viewed Japan, a nominal ally that actually *contributes* to Korea's security by hosting US forces, as an actual threat because of its economic dominance, Korean elites' remarks of Japan as regional threat become more understandable.

Thailand

Unlike the cases of Japan and Korea, Thailand underwent a strategic shift under Thaksin which *increased* its prioritization of economic strength and advantage. Changes in Thailand's response to China are better explained when one considers evolving strategic preferences because of stasis in China's level of threat. While Thailand's response to China is not inconsistent with realist logic, Thailand's near allegiance to China during the Thaksin era becomes much clearer when one considers that Thaksin prioritized economic advantage and gain, and was unwilling to allow diplomatic disputes with China to impede commercial activity. Many of Thaksin's family members and political associates stood to gain much from increased economic activity with China, thereby providing additional incentive for the Thaksin government to use political office to strengthen Sino-Thai economic relations.

Inter-Country Differences

Both structural realism and domestic grand strategy theory contribute to explaining differences in Japan's, Korea's and Thailand's responses to China. Between 1992 and 2008, Japan confronted the greatest security threat from China, and in accordance with realist logic, has been the most aggressive of the three in military preparations to deter a Chinese threat. During the same period, Korea and Thailand not only confronted lesser Chinese military threats, but also benefitted from PRC assistance in mitigating security threats facing both countries from other sources. Accordingly, Seoul and Bangkok were less assertive in military balancing against China.

Domestic grand strategy theory adds depth to explaining why Korea and Thailand engaged China to greater degrees than Japan during the 2000s. While Koizumi led Japan away from its Asian developmental state characteristics, Korea and Thailand still perceived external threats through "development" lenses. Seoul's and Bangkok's promotion of trade and investment with Beijing, and willingness to yield to Beijing when diplomatic disputes arose, are more consistent with the predictions of domestic grand strategy theory.

These findings suggest that policy planning based upon realist models of state behavior can yield important information for constructing future scenarios. However, analysts must not ignore the assumptions inherent in other models of interstate behavior, such as those encapsulated in ideational-liberal frameworks—which consider domestic state structure and strategic priorities.

The appendix provides tables (A.2, A.3) which adjudicate the explanatory power of structural realism and domestic grand strategy theory in explaining intra-country variation. As inter-country variation does not lend itself to quantitative adjudication, no tables are provided.

IMPLICATIONS FOR INTERNATIONAL RELATIONS THEORY

Asian states are not balancing against, nor are they bandwagoning with, China. China's remarkable economic transformation from a socialist to a mixed-model of capitalism has created tremendous

opportunities for Asian states to engage China in mutually beneficial relations; however, economic engagement has not prevented some Asian states from hedging against China's military rise.

The findings of this study have strong implications for the field of international relations, and for the realist paradigm. Certainly, realism still retains its utility in explaining behavior. However, the realist paradigm has primarily relied on international behavior prior to World War I, World War II, and during the Cold War to formulate its most crucial hypotheses. During the Cold War, great power conflict was more acute and economic cooperation less comprehensive. Yet the state of international politics today, characterized by intensified and complex strategies which combine elements of both military hedging and economic engagement, is much more complex. Greater domestic ideological ferment in non-great power actors, and the greater influence that these regional states have in international affairs, adds greater diversity and complexity to the contemporary international landscape.

Proponents of power-based theories note that economic interdependence which characterized the pre World War I era failed to constrain the incentives for war. Accordingly, they apply similar arguments when prognosticating a future of inter-Asian conflict. However, such reasoning fails to recognize that the economic integration and growth characteristic of not only Asia, but of the world, is very different in substance and character than that of the last century. Today, states that are militarily balancing each other are simultaneously engaging in intimate economic partnerships, and may even cooperate on strategic affairs as well.⁷⁷⁹

EMERGING TRENDS AND FUTURE TRAJECTORIES

This dissertation has shown that China's economic rise and military modernization are two external factors which have, and will continue to, play a role in determining how Asian states respond to China. Domestic political changes and strategic shifts, however, will intervene with Beijing's changing economic and military behavior to shape Asian states' preferences for tradeoffs between

⁷⁷⁹ NATO is commonly viewed as balancing Russia, but the US and NATO have agreed to jointly develop a missile defense shield for Europe. See Parsons, Richter and Loiko, 2010.

economic priorities or military/security ones. Evolution in how Asian states view external threats will play a pivotal role in not only the future of Asian states' policies towards China, but towards the US and each other.

In the sections below, I first assess how Asian states have navigated the economic opportunities and challenges that have transpired from a rising China. This is followed by an analysis of the military and security concerns that Asian nations have had about China's rise. I then probe how evolving preferences, as roughly indicated by shifting state type, have caused Asian states to change the "lenses" or "filters" through which they process external threats. Domestic political and state-society interactions have shaped these preferences for threat interpretation, thus warranting a fourth vignette examining these variables. The analyses closes with general predictions on the future of Asian regional dynamics.

1. China's economic rise has fueled economic growth and regional stability, but the same factors that have engendered amity may lead to increased economic rivalry

Prior to and since the end of the Cold War, most Asian nations have reaped tremendous economic benefits from promoting trade and investment activities with China. Since the 1990s, economic ties have served as the primary mode of engagement between individual Asian states and China. In the cases of Japan, Korea and Thailand, all three have engaged China in avenues ranging from investment, technical and scientific assistance, foreign aid, and preferential trade agreements. Other Asian states have echoed Japan, Korea and Thailand in factoring the value of China's economic rise in their overall policy formation towards China.

In spite of the evolving military/security landscape in Asia, elites in Japan, Korea, Thailand, and many other Asian states have, and continue to, see the benefits of managed economic engagement with China as outweighing the costs. Elites of most Asian states learned from the aftermath of the 1997 Asian financial crisis that China's strong economy served as an engine for recovery in many Asian states. In some countries, trade with China contributed to over one percentage point of annual GDP growth. China's open economy—especially its receptivity to inflows of foreign investment—

complemented the economic strategies of countries such as Japan and Korea, which were keen on investing *into* China.

Operating under the assumption that the current economic strategies of Asian states are held constant for the near future, China's recent economic and commercial policy changes suggest an intra-Asian future characterized by greater trade conflict and economic rivalry. Asian developmental states, such as Japan and Korea, have been able to integrate China into their economic growth strategies precisely because China was very open to inflows of foreign direct investment. However, recent data suggest that Beijing is beginning to implement some of the protectionist policies that typified Asian developmental states.⁷⁸⁰ Economic strategists in Japan, Korea, and to a limited extent, Thailand, have already voiced concern over increasing levels of competition in key technologies and industries from China, and also from other states within the region.

As Chinese products are becoming more competitive with those Japanese and Korean goods which have contributed to their respective economic strength, the likelihood of trade conflict will increase over time.⁷⁸¹ As a processor and manufacturer of intermediate goods, Thailand faces less direct competition from Japan and Korea, but could suffer in the future if the numerous Japanese and Korean firms operating in Thailand downsize due to Chinese firms' increasing ability to manufacture such products themselves.

Intra Asian trade rivalry could be exacerbated by already intense competition between Japan and Korea. Despite, or because of, their economic success, Tokyo and Seoul are often at the receiving end of economic policy complaints over their restrictions on inflows of investment, import quotas, and capital controls. Japan, for example, remains one of the most closed countries to foreign investment, with an accumulated stock of inward investment of under 5% of GDP (as of 2008). Korea began to open its doors to investment after the 1997 financial crisis, and its accumulated stock

⁷⁸⁰ Contemporary initiatives by China point to increasing government interventions in the form of non-tariff trade barriers, efforts to license and secure foreign technology, and protectionist trade policies resembling Japanese and Korean strategies. See, for example: Dyer and Dinmore, 2010.

⁷⁸¹ At the time of writing, Korea has started to re-impose capital controls. See, for example: Oliver, 2010, and Oliver, Song and Lamont, 2010.

if inbound FDI as of 2008 is just over 10% of GDP. China, on the other hand, as been very open to FDI, allowing its accumulated stock of FDI to rise above 15% of GDP during the 1990s.⁷⁸²

While increasing economic competition among Asian countries in critical high-technology industries will likely increase trade friction and economic rivalry, two factors give cause for optimism: increased openness of some Asian economies to inward investment, and continued growth and expansion of other Asian nations that are becoming more integrated into the East Asian economic architecture—in particular, India.

In recent years, Asian nations which had previously employed protectionist policies have become more open to inflows of foreign investment, as indicated by increasing accumulated stocks of FDI as a percentage of GDP.⁷⁸³ If this trend towards greater openness continues, then the probability of a more virtuous circle of inter-Asian economic relations will increase. If, however, China erects greater regulatory barriers to inward investment, and other nations pursue a beggar-thy-neighbor policy, then there is an increased likelihood that trade and economic conflict will worsen, and possibly spill over to cause decreased intra-Asian security ties.

The emergence of India as a more popular investment destination has both positive and negative implications for the health of inter-Asian economic relations. Two Asian states have been particularly active in investing in India—Japan and Korea.⁷⁸⁴ While there are political motivations for countries to encourage investment in India (which will be discussed below), India's low labor costs, highly educated workforce, and large domestic market serve as an avenue for enhanced economic returns in Asian nations which prioritize economic growth—such as Japan and Korea. India's attractiveness as an investment destination could stem East Asian states' anxieties arising from increased competition in East Asia and the recent souring of China as a destination for business and investment.⁷⁸⁵

⁷⁸² See Appendix, Table A.1 and Figure A.4.

⁷⁸³ See Appendix, Table A.1 and Figure A.4.

⁷⁸⁴ India's Department of Industrial Policy and Promotion has given particular emphasis on facilitating investment from Japan and Korea, with the Japan Cell and Korea Desk. In the 2009 calendar year, Japan was the fifth largest source of FDI flowing into India. If Mauritius, Singapore and Cyprus are discounted (due the fact that these entities channel funds flowing from elsewhere), then Japan would be the second largest source of FDI flowing into India. See Department of Industrial Policy and Promotion, 2010.

⁷⁸⁵ See, for example, Dyer and Dinmore, 2010.

2. Asian states' security responses to China's military rise could lead to competitive rivalry and a regional arms race

Asian nations have generally not been responding to China's military rise by comprehensively balancing against its growing power projection capabilities. However, the manner in which Japan, Korea and Thailand have responded to China since the end of the Cold War indicates that these Asian states have not disregarded external threats in their foreign policy response to China. Long term concerns over the intentions behind China's military modernization have lurked beneath the surface of robust diplomatic and economic relations between Asian nations and China. Fears that Beijing's military buildup may be for purposes other than benign self defense have been reinforced by actions and statements that have elevated security friction in Asia. Individual Asian states have not ignored the PRC's military threats, and have responded to varying degrees with their own military buildups.

Even if the current security strategies of Asian states are held constant for the near future, recent trends point to a future in which competitive military rivalry among Asian states cannot be ruled out. Japan, Korea and Thailand have implemented military modernization programs of varying scope and sophistication. With the exception of Japan, none of these countries' deployments, acquisitions and defense postures are motivated primarily by the rise of China. Korea's defense modernization has been driven as much by a desire to become a more independent and self-reliant nation that is less of a junior-partner to the US as it has been by hedging against China's military prowess. Thailand, which does not have any territorial disputes with China and is not threatened by China, has relied on the latter for supplies of military equipment.

Yet, the danger of military and security competition creating a less stable regional dynamic stems not exclusively from China's military rise, but in the potential for a regional arms race. Take, for example, the case of Japan and Korea. While Japan and Korea do not threaten each other, and in fact, benefit from each others' alliances with the US, unresolved historical issues have led to mutual mistrust at some levels. More so in Korea than in Japan, senior military leaders have invoked Japan as a possible

threat. Though sometimes more rhetoric than substance, misunderstandings and strategic mistrust provide fuel for Korean efforts to balance against Japan's rising naval and air power capabilities.

The "keeping up with thy neighbor" mentality is also evident in Southeast Asia. A staunch US ally, Singapore has developed the region's most capable naval and air forces, leading its historical rivals, Malaysia and Indonesia, to embark on military modernization efforts as well. Thai leaders have invoked Malaysia's naval modernization as justification for Bangkok's acquisition of submarines. Vietnam's recent military modernization efforts, while driven mostly by China's rising threat, serve as additional stimulus for competitive and successive military balancing in Southeast Asia.

In recent years, Asian states have enhanced political and alliance relations with countries on the periphery of East and Southeast Asia. Japan, Korea and Thailand have all strengthened diplomatic ties with India, with Tokyo having forged the strongest ties with New Delhi. While Japan forged the earliest security ties with Australia, Korea and Indonesia have been enhancing diplomatic and security cooperation ties with Australia as well.

3. To get rich is (still) glorious? Evolving preferences for the proportion of economic versus military power pursued will bear on the future of Asian regional dynamics.

The previous analyses (sections 1 and 2) separated the economic and military/security implications of Asian responses to China. Embedded in this discussion was the assumption that Asian states hold preferences for security and strength, whether they be economic advantage, or military superiority and irredentism. While Asian states all value both economic strength and safety from military attack, this dissertation has found that individual states differ as to the proportion of each preferred. Within each state, preferences for the proportion of each objective can also change over time.

Consistent with the predictions of domestic grand strategy theory, the dissertation has shown that as states shifted from Asian developmental states to laissez faire states, their preferences for the proportion of each dimension of power evolves. Whether states view threats through "developmental" lenses (i.e.: ones that prioritize economic strength and technological prowess), or

“military/security” lenses (i.e.: ones that emphasize the territorial and military aspects of security implied under realism) depends on state preferences.

Asian developmental states are more sensitive to economic threats than laissez faire states, and thus confront more tension in trading off between economic versus military priorities. This tension is evident in a recurring pattern seen in Japan’s, Korea’s and Thailand’s responses to China—that as Asian states’ economic perceptions of China change, their military and security outlook vis-à-vis China appears to change as well. This finding supports the contention that realist-based assumptions of uniform security preferences across all states are inaccurate, and adds credence to ideational-liberal schools’ contention that state preferences are malleable and variegated.

Previous preferences stressed economic advantage...

State preferences are the product of historical events, leaders, and state structures, and are prone to change in a discontinuous manner. Such preferences for particular proportions of economic versus military dimensions of security are embraced by elites and embedded in the institutions which play a role in external affairs. Over time, these preferences have a tendency to remain static until a major domestic and/or foreign shock forces a major, discontinuous change.

During, and in the decade after the end of the Cold War, Asian states viewed external events, threats, and opportunities through a combination of the “developmental” and “military/security” lenses. However, developmental lenses were employed more frequently than military/security ones, making the emphasis placed by many Asian countries on economic growth best captured by the phrase allegedly uttered by Deng Xiaoping, “to get rich is glorious.” As illustrated by the cases of Japan, Korea and Thailand, numerous Asian states adopted national strategies which prioritized economic strength and technological security at levels equal to or greater than military security. These states were not insensitive to external military threats, but rather viewed strategically oriented economic growth and technological prowess as a means of stabilizing the fragile state of internal security following the Second World War.

An intense focus on the potential technological and economic gains from ties with China caused these states to de-emphasize more “traditional” areas of military/territorial security and mitigate diplomatic conflict with China. As these more “traditional” concepts of military or territorial security are embedded in nationalistic and historical issues, Asian states, such as Japan and Korea, have often been willing to yield diplomatic ground on these issues in hopes of gaining on the economic front. To adopt the language of Albert Hirschman, these states emphasized the “interests” over the “passions.”⁷⁸⁶

...but preferences have shifted to embrace military power

The cases of Japan, Korea and Thailand show that Asian states have, through interactive and iterative processes incorporating domestic political structural and ideational change, gradually shifted away from the Asian developmental state type. The combination of internal and external shocks—ranging from domestic political and ideological ferment, demographic change, regional military instability, and the 1997 Asian financial crisis—fostered a discontinuous change in state preferences over the use of “development” versus “military/security” lenses in assessing external threats. Some, such as Japan, still hold economic and technological power in high regard, but have begun to prioritize military security. Others, such as Korea or Thailand, have whittled away the state-guided agencies and policies which had sustained economically focused policies, but continue to prioritize economic growth as a means to national strength.

Discontinuous shifts in Asian states’ preferences raise the policy-relevant question of what are the determinants of such change. The next section notes that because domestic factors play a pivotal role in these preference shifts, analysts need to factor in domestic changes when assessing Asian states’ responses to China.

⁷⁸⁶ Hirschman, 1977.

4. Although external variables effect changes in state preferences, domestic factors appear to play a greater role

Empirical evidence from the cases of Japan, Korea and Thailand since the end of the Cold War suggest that while external factors play a role in shaping Asian states' preferences, domestic variables play an equally important, and at times greater and more enduring role in shaping changes in state preferences. Although Japan's and Korea's increased sensitivities to China as an economic and security threat have followed China's more muscular security stances and military modernization, the timing of such sensitivities suggests that preferences were driven more by domestic forces than by China's rising military threat.

For example, the preponderance of evidence suggests that the changes in Japan's state preferences to increasingly prioritize military/security objectives over economic advantage were driven by mostly domestic factors. These occurred over the span of many years, with internal, political/structural changes motivated by domestic crises. The dismal failure of the Japanese government to respond to the 1995 Great Hanshin Earthquake served as impetus for revisions to the Cabinet Law in 1999 and 2001.⁷⁸⁷ It was this sequence of domestically-driven change which allowed Koizumi to shift Japan away from a state which prioritized economic and technological strength at the expense of military/security goals. In Japan, these shifts occurred hand-in-hand with political reforms that also moved Japan away from being an Asian developmental state. Since Koizumi, more populist politicians have been able to influence whether external threats are viewed through the "development" or "military/security" lenses—with the latter being more frequently employed.

⁷⁸⁷ The Japanese government's failure to adequately respond to the 1995 earthquake was the *primary* reason for some reforms that specifically strengthened the role of the Cabinet to handle emergency situations—such as the creation of the Office of Crisis Management (also referred to as the Cabinet Security Affairs Office). See Shimizu, 1998. For evidence of the dismal response, see Kato, 1995. In language describing the motivation for revisions to the Cabinet Law, the first sub-section of Section 1 notes: "As Japan's goals have become more diverse and both internal and external circumstances have seen increasingly radical changes, it has become imperative to establish a system to strengthen the administrative leadership of the Cabinet and Prime Minister so that timely decisions can be made with strategic and comprehensive administration." See Kantei, 2001. In this case, "more diverse" goals implies not only greater attention to security caused the changing international environment and the end of sole reliance on the US for defense needs, but also an end to just the economic focus of the Yoshida Doctrine and the "Comprehensive Security" concept of the 1980s. The author is grateful to former Japanese and US senior government officials for these insights.

Turning to Korea, political liberalization, which was partially encouraged by an external force—the US—allowed domestic discontent to materialize and spur further changes in state type. The impetus to liberalize Korea’s economy and break the cozy relations between *chaebol* and political elite stemmed in large part from the revelations of massive corruption by earlier ROK presidents Chun Doo Hwan and Roh Tae Woo. Although Korea continues to prioritize economic development and technological competitiveness, domestic political reforms allowed for politicians such as Presidents Kim Dae Jung and Roh Moo Hyun to alter elite preferences and place increased emphasis on issues of national pride and recovery of disputed territories. The election of Lee Myung Bak as ROK president in 2007 ushered in an era where economic and technological competitiveness were rekindled, but not one where the use of “military/security” lenses have been absent.

In the case of Thailand, its leaders have valued both economic development and military security since the end of the Cold War. External threats were not especially pronounced, but it was a domestic revolution, in the form of Thaksin Shinawatra’s election as a self-styled “CEO president,” which ushered in a greater emphasis on economic growth and technological prowess as a means of national pride. While Thaksin’s election may have been facilitated by the 1997 Asian financial crisis, which sullied the reputations of earlier politicians and their political parties, domestic factors were still primal in determining the election’s outcome.

5. Whither *pax asiatica*? Increasing tendencies to view external threats through “military/security” lenses in parallel with “developmental” lenses portends a more complex and treacherous Asian strategic landscape

Since the end of the Cold War, China’s remarkable rise has contributed to elevating standards of living and increasing stability and prosperity throughout Asia. Japan, Korea and Thailand are three examples of Asian nations that have benefitted enormously from economically engaging China. Yet beneath the confidence of prosperity has lurked concerns over China’s growing military capabilities and aggressive posturing. The general trend towards increased sensitivity to external threats among some Asian states suggests that the pacifying effects of prioritizing economic advantage will diminish over time. Combined with increasingly sour views of China as an economic opportunity, and a more

pronounced security dilemma, the shift in Asian strategic preferences portends greater intra-Asian strategic rivalry.

The diagram below provides a notional illustration of how shifts in Asian state preferences will lead to greater military and security rivalry. Trajectory 1 depicts how rising economic and military competition will lead to increased rivalry. However, the degree of rivalry will increase due to states' greater sensitivity to military threats; this is depicted by the line labeled Trajectory 2.

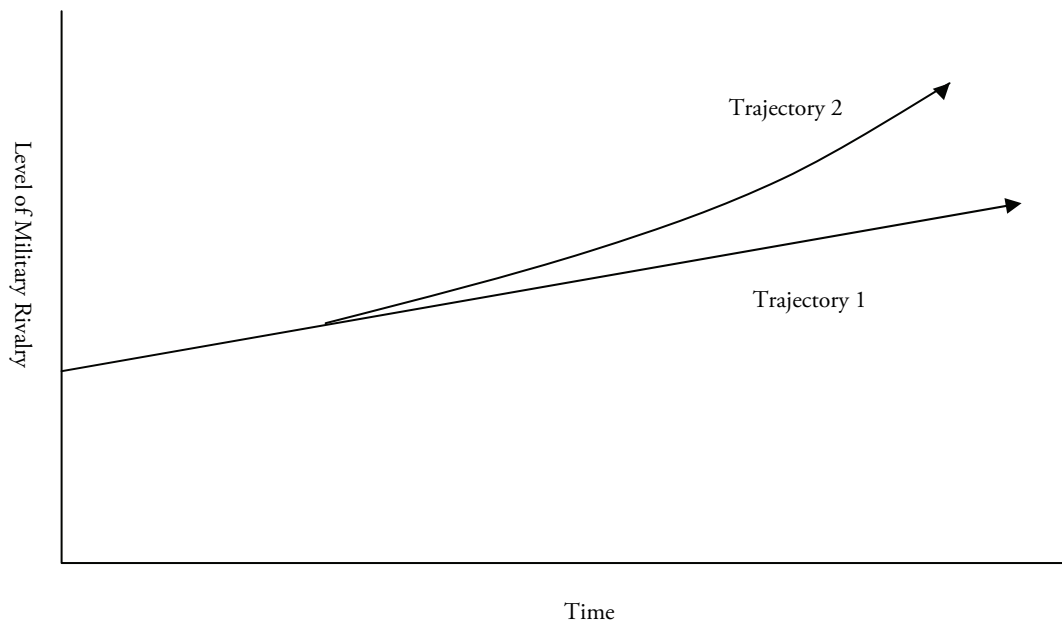


FIGURE 5.1
Notional Illustration of Future Asian Trajectories

The transitional period, when Asian states undergo shifts from developmental states to something more resembling laissez-faire states, is especially challenging. While ideal type Asian developmental states or laissez-faire states will tend to either prioritize economic strength *or* military/security interests, respectively, states lying somewhere in between struggle more with balancing economic

strength *and* military/security interests.⁷⁸⁸ For example, as an Asian developmental state, Japan was more prone to subsume its military/security interests and nationalism in favor of maintaining amicable diplomatic ties with China. However, as a state lying between the two ideal types, Japan is now more sensitive to military and security threats while maintaining some level of sensitivity to external economic threats. Other Asian states, such as Korea, Thailand, and Singapore, are currently in this “middle” area as well.

The change in state preferences that have accompanied shifts in many Asian states’ type means that currently, these states are wearing both “development” and “military/security” lenses. Increasingly populist-driven political processes are one reason why Asian states are becoming more sensitized to military/security and territorial threats. In many Asian states, such domestic changes have also come hand-in-hand with increased nationalism, leading to the possibility of greater political and diplomatic disputes and friction in Asian regional dynamics.

There is already evidence of how more populist and decisive domestic political dynamics are reflected in Asian states’ policies towards China. Disputes between Japan and China over the uninhabited Diaoyu/Senkaku Islands, and maritime boundaries in the East China Sea, have become more frequent and severe since Koizumi became prime minister. Though it has not been allowed to escalate, frictions between Korea and China over the sovereignty of Socotra Rock (Ieo Island or Suyan Rock), and disputes over maritime exclusive economic zones, have increased in recent years. Rising nationalism has also had a detrimental effect on relations between US allies, Japan and Korea. Competing Japanese and Korean claims over the Dokdo/Takeshima Islands have had negative effects on bilateral ties in recent years.

⁷⁸⁸ This does not mean that Asian developmental states do not value security from military attack. Asian developmental states also contend with competing goals, but highly value economic priorities.

POLICY IMPLICATIONS AND RECOMMENDATIONS

For more than fifty years since the end of World War II, the US has maintained numerous alliances and security partnerships with many Asian nations. They have, on balance, respected the US presence in the region as an indispensable provider of security and stability. China's tectonic opening and engagement with Asian states presented opportunities for both the US and its Asian allies. Yet China's remarkable rise has transformed the Asian strategic landscape, blurring once clear political and economic divisions.

Asian allies, who once looked more to the US for policy direction, now want to establish a greater sense of their own security direction. The more technologically and economically powerful states in the region, such as Japan and Korea, have sought to mature from being junior partners of the US, and have seen cultivating closer ties with China as one way of proclaiming their own foreign policy voice. Even the less dominant states, such as Thailand, have asserted a more independent voice. While Asian nations have all sought to become more independent and influential regional players, they have had to respond to both the opportunities afforded by China's economic rise, and the challenges posed by its military modernization and more confident foreign policy.

China's potential as a long-term threat means that no Asian state wants the US to abandon the region. US Secretary of State Hillary Rodham Clinton best summarizes the sentiments among Asian elites when she stated, "The most common thing that Asian leaders have said to me in my travels over this last 20 months is thank you, we're so glad that you're playing an active role in Asia again."⁷⁸⁹ However, welcoming a US presence does not equate with allegiance to the US. Nor does affinity for Washington imply indifference towards Beijing. Indeed, policy elites in Tokyo, Seoul, Bangkok, and other capitals most fear situations where they will have to choose between Washington and Beijing.

Asian states' interests in a continued US presence in the region, coupled with recent strategic shifts in their preferences for economic versus military advantage, suggests a unique opportunity for Washington to engage the region and promote continued prosperity and stability. Yet the policy

⁷⁸⁹ Clinton, 2010.

prescriptions are not straightforward given that evolving preferences are causing all Asian states to be more sensitive to military threats. Furthermore, elevated economic competition on the part of China, coupled with perceptions of it as an economic threat, have *correlated* with some Asian nations' decreased willingness to mitigate diplomatic and military/security friction with China.

US policymakers can encourage virtuous circles of prosperity, and restrain vicious cycles of rivalry. While altering Asian elite preferences to prioritize economic strength over military power would be ideal, such a possibility exists only in theory. Yet there exist several policy areas worthy of attention. In formulating diplomacy in the region, the US should be sensitive to the domestic and historical drivers that have motivated strategic shifts. Washington should also be attentive to opportunities for intervention in two other broad policy areas: regional economic ties, and military/strategic dynamics.

Domestic Contours

Recent trends in Asia suggest that the very forces which have contributed to increasing Asian states' sense of independence and preference for military power have often come in tow with greater awareness of unresolved historical issues and nationalism. Populist politicians have often fanned the flames of nationalism, much to the detriment of not only some Asian states' ties with China, but also to harmonious relations between Washington's allies.

US policymakers must be sensitive to the tendency for unresolved historical and territorial disputes to exacerbate nationalist tendencies, and their potential to derail Asia's continuing trajectory of growth and prosperity. Domestic and nationalistically driven political agendas in Japan and Korea illustrate the dangers that evolving state preferences have for relations among US allies. Continued disputes between allies such as Tokyo and Seoul, while legitimate, should not be encouraged to escalate, as infighting among US allies will certainly serve as a strong impediment to US, and global, interests in a prosperous and peaceful Asia.

Nationalism has had a tendency to erupt during times of strain in domestic political affairs brought about by crises and political reform. Asian nations such as Korea and Thailand, which are undergoing populist calls to reform collusive government-business linkages that were the product of

developmental agendas, deserve attention from US policymakers who oversee efforts at improving the role of civil society in political reform. Thailand's domestic situation is especially tenuous because of its succession of coups and governments, and prone to nationalist-inspired instability if the eventual monarchical succession is not well managed. If the history of Indonesia in 1998 serves a lesson, it is that states are often in fragile situations when political reforms are underway. The US has an interest in ensuring that transitions do not occur in destabilizing or violent means.

Regional Economic Landscape

China's rising economic might and increasingly restrictive trade and investment policies portends more intense economic competition. Reverberations from the global economic downturn brought on by the US debt crisis of 2008 are still being felt in Asia. In an attempt to protect their already weakened economies, many Asian states have countered China's rising competitiveness through tighter monetary controls and currency devaluations. The onslaught of preferential trade agreements suggests a potential for future economic fractionation.

The US can leverage both its bilateral ties with Asian nations and regional standing to encourage greater economic cooperation so as to mitigate the deleterious effects of greater economic rivalry. As many Asian states still value economic strength, the US could enhance technological and economic cooperation through increased engagement in regional organizations. While the US has been right to pursue bilateral free trade accords, such as the US-Korea FTA or US-Thai FTA, such agreements should not be forged at the expense of efforts to foster broader regional integration.

Washington should also re-invigorate previous trends in Asian states towards greater receptivity to inflows of direct investment.⁷⁹⁰ Greater East and Southeast Asian interest in India as an economic partner need not lead to the formation of economic blocs. Rather, India's involvement in Asian economic organizations, such as the ASEAN process, should be further encouraged.

⁷⁹⁰ See Appendix, Figure A.4.

Regional Security Landscape

Weakening preferential restraints on the pursuit of military power in many Asian capitals suggests a future where military competition will be more intense. China's increasing power projection capabilities and threatening behavior have contributed to military balancing in many Asian states. In turn, Asian states have observed each others' increasing military capabilities with suspicion, increasing the risks for misunderstandings at best, and miscalculation at worst.

Recent security and diplomatic posturing suggests a more fragmented Asian security landscape. Liberal democratic states have tended to hew more closely to one another, while those that are more concerned with economic growth than democratic ideology have formed alternative groupings. Japan, Korea, Australia, India, and the US are representative of the former, while China's Shanghai Cooperation Organization (SCO) is representative of the latter. Some key ASEAN nations, such as Thailand, Indonesia, and Vietnam, maintain varying levels of strategic ties with the US and China.

While the US should continue to maintain its interests in each of the Asian organizations to which it belongs, encouraging greater regional cooperation and confidence building as part of the larger East Asia Summit (EAS) process would serve to increase regional strategic trust. Given that Asian nations have balanced China, and each other, through naval modernization, maritime disputes are most likely to increase. Washington should leverage its naval strengths to promote greater transparency and communication amongst Asian navies. Joint disaster relief drills and anti-piracy measures are one way to increase trust and cooperation. However, to increase its credibility as a partner in the region, the US should also ratify the 1982 United Nations Convention on the Law of the Sea. Setting this example might also spur the only other significant power in Asia yet to ratify the 1982 Convention to follow.

In light of increased pan-Asian concern over China's military rise, it would be simple for US policymakers to reactively increase military commitments in an effort to "contain" China. However, such efforts are likely to backfire because they would tend to exacerbate strategic fault lines in the region. Actions which force Asian states to gravitate towards either a China or US led security bloc

would possibly result in the worst possible outcome for future Asia-Pacific stability and prosperity. Thus, harmonious regional relations cannot be achieved without stable US-China relations.

APPENDIX

1. Note 1

The Enduring Impact of the Asian Developmental State Attributes

The developmental state identity managed to take on a life of its own in Asian states, where operational concepts and “doctrines,” or “protocols,” were institutionalized into various state structures which frequently empowered the bureaucracy—and often the economic bureaucracy—more than elected politicians, rendering subsequent politicians and state elites captive to such definitions of state security.⁷⁹¹ In this sense, institutionalization of prior conceptions of state security aligned the state’s foreign policy on an inertial path that was difficult to change quickly.⁷⁹²

In Asia, internal and external events which impinged on security were filtered through these domestic structural and preferential lenses that formed part of the developmental state apparatus. Tremendous success in raising living standards during the 1970s and 80s in Asian states such as Japan and Korea prolonged the developmental state trappings of countries. Over time, intellectual and ideational justification for the developmental state, along with its attendant structures, became embedded within the state governing regime. In Asian states, a developmentalist definition of state security, and

⁷⁹¹ The term “protocols” comes from Richard Samuels, who uses the term to describe the set of rules which regulate choice. See Samuels, 1994, p. 31.

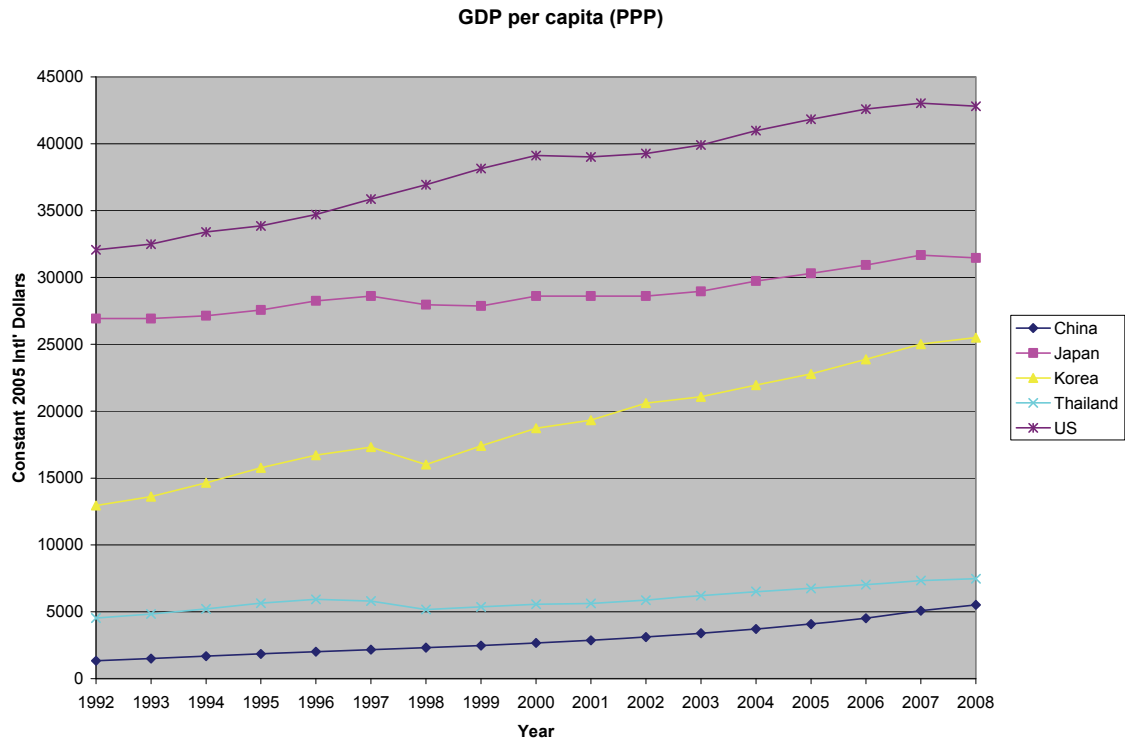
⁷⁹² The concept of inertia in the social sciences, referred to sometimes as path dependency or system hysteresis, comes from the natural sciences. Path dependency is used to describe biological and evolutionary processes, and hysteresis to describe magnetism and other phenomena in the physical sciences. Political scientists who have written about the tendency of political systems and cycles to “stick” include T.J. Pempel, in Pempel, 2000. Citing examples in a variety of countries but focusing his work on Japan, Pempel describes how domestic political patterns can constitute what he calls a “regime.” Pempel’s use of the term regime does not have a derogatory connotation, but describes a regime as comprising three elements: socioeconomic sectors and alliances, political economic institutions, and public policy directions (Pempel, 2000, p. 22-27). When a successful regime obtains and delivers economic growth and political stability, this regime has a tendency to endure. Corporatist bargaining arrangements within the socioeconomic sphere which deliver wealth and equity also increased government resources, allowing the state to buy off those who have benefited less in a state’s economic policy, further reinforcing the existing regime in a virtuous cycle. For a somewhat different but still related application of the path dependency concept, see a discussion of “continuist” democratic traditions (Kang and Huang, 2007b).

the institutional scaffold to support it (boxes B and C in Figure 1.2, Chapter 1), proved hard to alter, much akin to a physical system with hysteresis.

The weakening of the developmental state pillars in Asian states only began to transpire as a result of major domestic or external shocks. In Asian states, these shocks came in both forms, causing the populace to demand domestic political change. These policy earthquakes had the effect of toppling previous regimes of close alignment among the bureaucratic (including military) and political elite, and powerful business interests. And these changes led to evolving definitions among the elite as to how security and grand strategy should be defined, and also the concomitant shift in institutions to support the new paradigm. Most frequently, the new state paradigm was in the direction of a *laissez-faire* ideal type.

2. Figure A.1

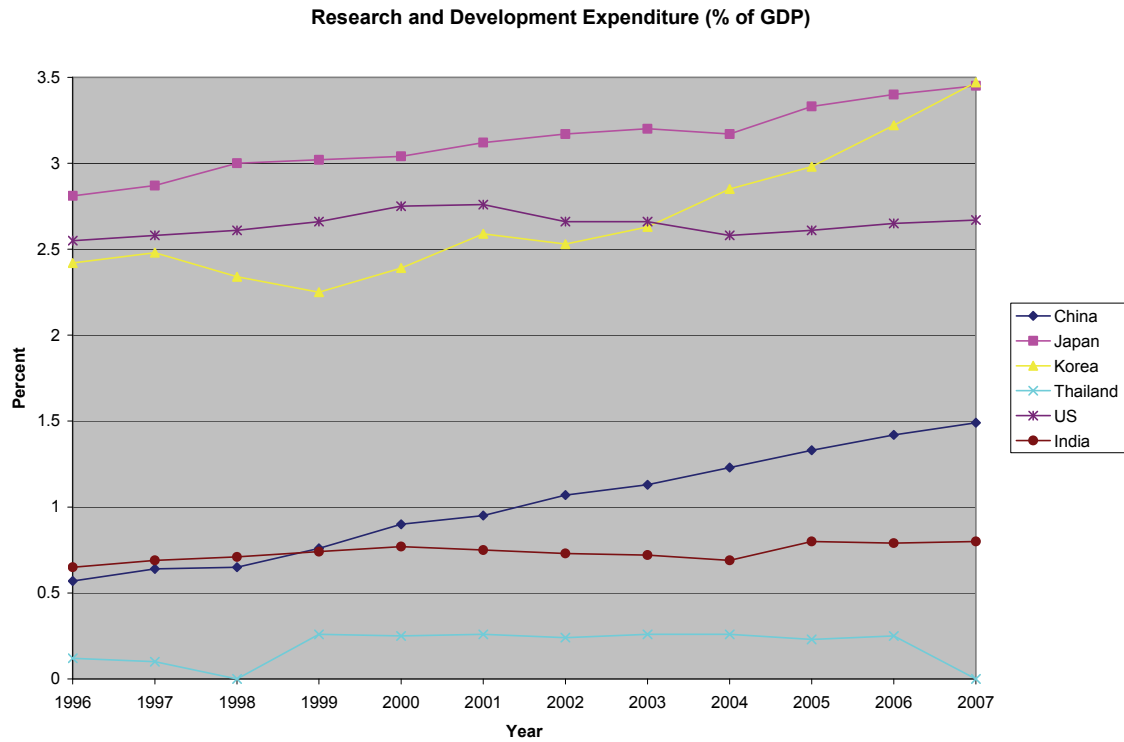
Graph illustrating surrogate indicator for relative technological/economic power, with US provided as reference. Source: The World Bank, World Development Indicators⁷⁹³



⁷⁹³ The World Bank, Various Years.

3. Figure A.2

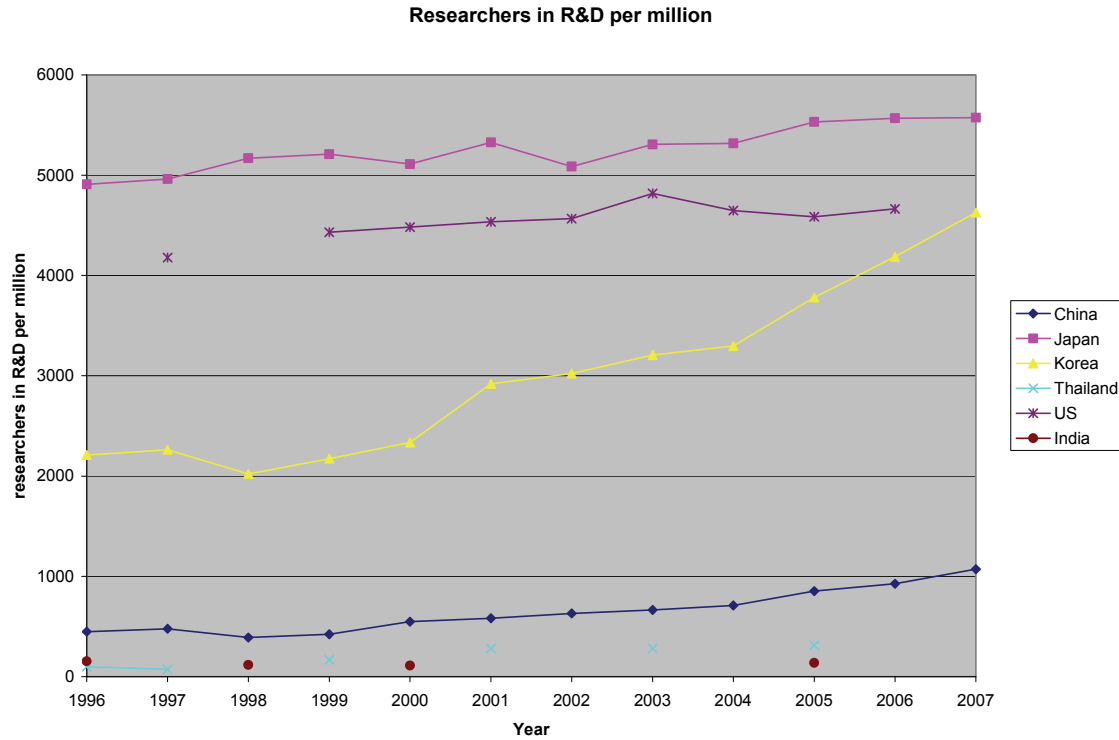
Graph illustrating surrogate indicator for relative technological/economic power, with US provided as reference. Source: The World Bank, World Development Indicators⁷⁹⁴



⁷⁹⁴ Ibid.

4. Figure A.3

Graph illustrating surrogate indicator for relative technological/economic power, with US provided as reference. Source: The World Bank, World Development Indicators⁷⁹⁵



5. Table A.1

Table illustrating Asian nations accumulated inward foreign direct investment (FDI) as percent of GDP. This serves as one indicator of a state's openness to inflows of foreign capital. Source: United Nations Conference on Trade and Development.⁷⁹⁶

Accumulated FDI Stock (inward FDI) as Percentage of GDP																	
Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Country																	
China	7.21	9.92	12.73	13.36	14.36	15.63	16.76	16.91	16.21	15.43	14.89	13.86	12.68	11.82	10.52	9.45	8.74
Japan	0.41	0.39	0.40	0.64	0.65	0.64	0.68	1.06	1.08	1.23	1.99	2.12	2.11	2.22	2.47	3.03	4.14
Korea	2.00	1.97	1.86	1.76	1.98	2.63	5.34	6.27	7.14	10.55	10.88	10.26	12.16	12.41	12.52	11.40	10.19
Thailand	11.04	11.26	10.88	10.53	10.83	8.84	22.78	25.37	24.38	28.79	30.30	34.31	32.97	34.25	37.28	38.25	32.98
US	11.01	11.57	10.73	13.61	15.74	19.72	24.90	30.16	28.30	25.23	19.27	22.34	23.20	22.63	24.94	26.00	17.98

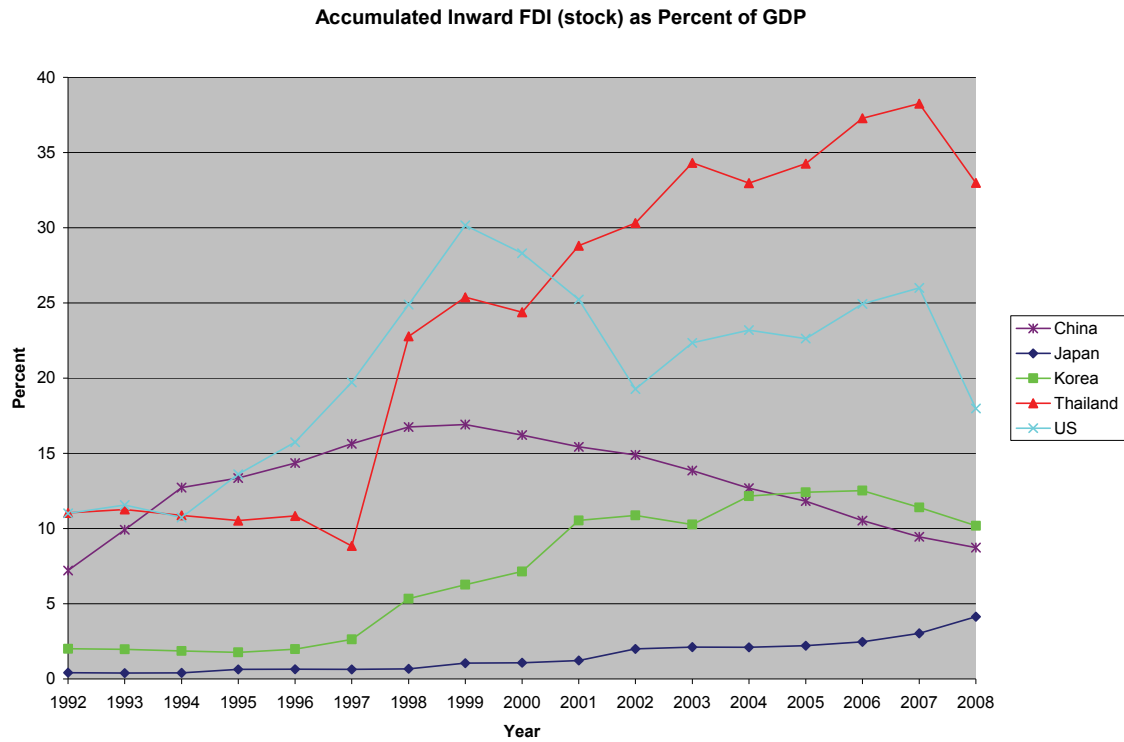
Source: United Nations Conference on Trade and Development, Interactive Database on Foreign Direct Investment Statistics
<http://www.unctad.org/Templates/Page.asp?ntitemID=3199&lang=1>
 FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises.

⁷⁹⁵ Ibid.

⁷⁹⁶ United Nations Conference on Trade and Development, 2010.

6. Figure A.4 (Illustration of Data in Table A.1)

Graph illustrating Asian nations accumulated inward foreign direct investment (FDI) as percent of GDP. This serves as one indicator of a state's openness to inflows of foreign capital. Source: United Nations Conference on Trade and Development.⁷⁹⁷



⁷⁹⁷ Ibid.

7. Heuristic Scorecard Assessing Explanatory Power of Realism

Structural Realism						
Country	Response Dimension	Time Period	Prediction	Actual Outcome	Score	
Japan	Political/Military	1992-2001	some balancing	neutral/some balancing	0	
		2001-2006	friction/balancing	some balancing	1	
		2006-2008	friction/balancing	some balancing	1	
Japan	Economic	1992-2001	some restrictions on economic engagement	economic aid to China and encouragement of trade	-1	
		2001-2006	restrictions on economic engagement	reduced aid, but continued trade promotion	-1	
		2006-2008	restrictions on economic engagement	less aid, but continued incentives for economic engagement	-1	
Korea	Political/Military	1992-1998	neutral	neutral/align towards	0	
		1998-2008	neutral	neutral/align towards	0	
Korea	Economic	1992-1998	neutral	Engagement	0	
		1998-2008	neutral	Engagement	0	
Thailand	Political/Military	1992-2001	neutral/some engagement	Engagement	1	
		2001-2008	neutral/some engagement	Engagement	1	
Thailand	Economic	1992-2001	neutral	Neutral	1	
		2001-2008	neutral	Engagement	0	
					2	<i>Total</i>
<p>Score:</p> <p>A score of "1" is assigned when most of the actual response matches the predicted response, confirming the theory's ability to explain the policy response to China.</p> <p>A score of "0" is assigned when some of the actual response matches the predicted response, but some do not.</p> <p>A score of "-1" is assigned when little of the actual response matches the predicted response.</p> <p>The higher the total score, the greater the explanatory power of the theory in predicting change over time.</p>						

TABLE A.2

8. Heuristic Scorecard Assessing Explanatory Power of Domestic Grand Strategy Theory

Domestic Grand Strategy Theory						
Country	Response Dimension	Time Period	Prediction	Actual Outcome	Score	
Japan	Political/Military	1992-2001	engagement	neutral/some balancing	0	
		2001-2006	neutral	some balancing	0	
		2006-2008	some balancing	some balancing	1	
Japan	Economic	1992-2001	engagement	economic aid to China and encouragement of trade	1	
		2001-2006	neutral	reduced aid, but continued trade promotion	0	
		2006-2008	some balancing	less aid, but continued incentives for economic engagement	-1	
Korea	Political/Military	1992-1998	engagement	neutral/align towards	0	
		1998-2008	engagement	neutral/align towards	0	
Korea	Economic	1992-1998	engagement	alignment towards	1	
		1998-2008	engagement	alignment towards	1	
Thailand	Political/Military	1992-2001	engagement	engagement	1	
		2001-2008	engagement	engagement	1	
Thailand	Economic	1992-2001	engagement	neutral	0	
		2001-2008	engagement	engagement	1	
					6	<i>Total</i>
<p>Score:</p> <p>A score of "1" is assigned when most of the actual response matches the predicted response, confirming the theory's ability to explain the policy response to China.</p> <p>A score of "0" is assigned when some of the actual response matches the predicted response, but some do not.</p> <p>A score of "-1" is assigned when little of the actual response matches the predicted response.</p> <p>The higher the total score, the greater the explanatory power of the theory in predicting change over time.</p>						

TABLE A.3

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